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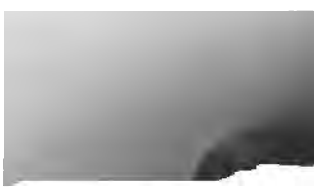

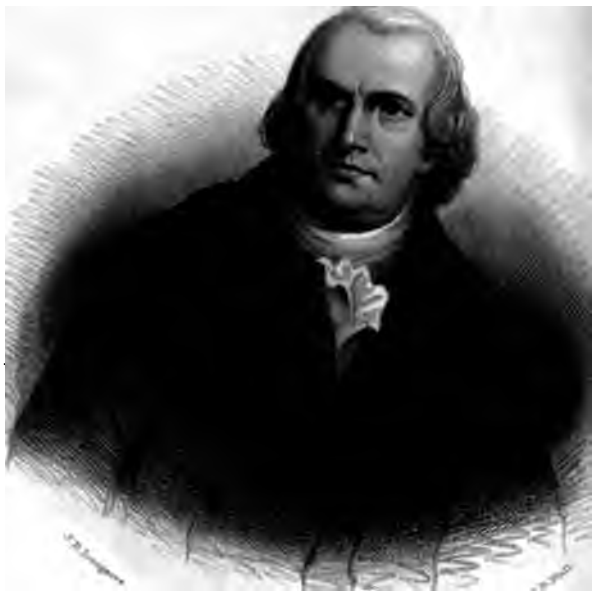

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Robt Morris.

Robert Morris

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Henry Cabot Lodge

"The sacred rights of mankind are not to be rummaged for among old parchments or musty records. They are written, as with a sunbeam, in the whole volume of human nature, by the hand of the Divinity itself, and can never be erased or obscured by mortal power."
[HAMILTON—*The Farmer Refuted*, 1775, Æt. 18.]

"We are laboring hard to establish in this country principles more and more *national*, and free from all foreign ingredients, so that we may be neither 'Greeks nor Trojans,' but truly Americans."—[HAMILTON TO KING, 1796, Æt. 39.]

Volume III

G. P. Putnam's Sons
New York and London
The Knickerbocker Press
1904

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# FINANCE (*Continued*)

# FINANCE (*Continued*)

## VINDICATION OF THE FUNDING SYSTEM

### NUMBER ONE

1791 (?)

IT was to have been foreseen, that though the virtuous part of those who were opposed to the present Constitution of the United States, while in deliberation before the people, would yield to the evidence which experience would afford of its usefulness and safety, there were opponents of a certain character, who, as happens in all great political questions, would always remain incurably hostile to it; that in the course of its administration its greatest merits would be in the eyes of such men its greatest blemishes, its most brilliant successes to them occasions of bitter chagrin and envious detraction, its slightest mismanagements subjects of malignant exaggeration, its most trivial misfortunes the welcome topics of virulent accusation and insidious misrepresentation.

With some men the hardest thing to forgive is the demonstration of their errors,—the manifestation that they are not infallible. Mortified vanity is one of the most corroding emotions of the human mind;

one of the most unextinguishable sources of animosity and hatred.

It was equally to have been foreseen, that personal disappointments would be likely to alienate from the government some individuals who had at first advocated its adoption, perhaps from motives not the most patriotic or commendable; that personal rivalships and competitions would throw others into an opposition to its measures, without much regard to their intrinsic merits or demerits; and that a third class would embrace the path of opposition as the supposed road to popularity and preferment, raising upon every colorable pretext the cry of danger to liberty, and endeavoring to disseminate among the people false terrors and ill-grounded alarms.

Phenomena like these have deformed the political horizon, and testify the depravity of mankind, in all countries and at all times.

It was likewise to have been expected that among the well-meaning friends of the government, there would be a part, competent to the proper management of the affairs of the Union, who, sensible from experience of the insufficiency of the former system, gave their assent to the substitute offered to their choice, rather from general impressions of the necessity of a change, than from an accurate view of the necessary compass of the authorities which ought to constitute it.

When they came to witness the exercise of those authorities upon a scale more comprehensive than they had contemplated, and to hear the incendiary comments of those who will ever be on the watch for

pretexts to brand the proceedings of the government with imputations of usurpation and tyranny, and the factious and indiscreet clamors of those who, in and out of the Legislature, with too much levity, torture the Constitution into objections to measures which they deem inexpedient;—it was to have been expected, I say, that some such men might be carried away by transient anxieties and apprehensions, and might for a moment add weight to an opposition which could not fail to grow out of other causes, and the real objects of which they would abhor.

There is yet another class of men, who, in all the stages of our republican system, either from desperate circumstances, or irregular ambition, or a mixture of both, will labor incessantly to keep the government in a troubled and unsettled state, to sow disquietudes in the minds of the people, and to promote confusion and change. Every republic at all times has its Catilines and its Cæsars.

Men of this stamp, while in their hearts they scoff at the principles of liberty, while in their real characters they are arbitrary, persecuting, and intolerant, are in all their harangues and professions the most zealous; nay, if they are to be believed, the only friends to liberty. Mercenary and corrupt themselves, they are continually making a parade of their purity and disinterestedness, and heaping upon others charges of peculation and corruption. Extravagant and dissipated in their own affairs, they are always prating about public economy, and railing at the government for its pretended profusion. Conscious that as long as the confidence of the people

shall be maintained in their tried and faithful servants, in men of real integrity and patriotism, their ambitious projects can never succeed, they leave no artifice unessayed, they spare no pains to destroy that confidence, and blacken the characters that stand in their way.

Convinced that as long as order and system in the public affairs can be maintained, their schemes can never be realized, they are constantly representing the means of that order and system as chains forged for the people. Themselves the only plotters and conspirators, they are for ever spreading tales of plots and conspiracies; always talking of the republican cause, and meaning nothing but the cause of themselves and their party; virtue and liberty constantly on their lips, fraud, usurpation, and tyranny in their hearts.

There is yet another class of opponents to the government and its administration, who are of too much consequence not to be mentioned: a sect of political doctors; a kind of POPES in government; standards of political orthodoxy, who brand with heresy all opinions but their own; men of sublimated imaginations and weak judgments; pretenders to profound knowledge, yet ignorant of the most useful of all sciences — the science of human nature; men who dignify themselves with the appellation of philosophers, yet are destitute of the first elements of true philosophy; lovers of paradoxes; men who maintain expressly that religion is not necessary to society, and very nearly that government itself is a nuisance; that priests and clergymen of all descriptions are

worse than useless. Such men, the ridicule of any cause that they espouse, and the best witnesses to the goodness of that which they oppose, have no small share in the clamors which are raised, and in the dissatisfactions which are excited.

While the real object of these clamors, with the persons most active in propagating them, is opposition to the administration of it; while they are straining every nerve to render it odious, they are profuse in their professions of attachment to it. To oppose avowedly the *work of the people* would be too barefaced. It would not accord with that system of treacherous flattery, which is the usual engine of these pretended "friends," but real betrayers, of the people.

Circumstances require that the mode of attack be changed. The government is to be good, if not excellent, but its administration is to be execrable,—detestable,—a mere sink of corruption; a deep-laid plan to overturn the republican system of the country.

Suspicions of the most flagitious prostitution and corruption in office, of improper connections with brokers and speculators to fleece the community, of the horrid depravity of promoting wars, and the shedding of human blood, for the sake of sharing collusively the emoluments of lucrative contracts, suspicions like these are, if possible, to be thrown upon men, the whole tenor of whose lives gives the lie to them; who, before they came into office, were never either *land*-jobbers, or stock-jobbers, or jobbers of any other kind; who can appeal to their fellow-citizens of every other party and description to attest

that their reputations for probity are unsullied, that their conduct in all pecuniary concerns has been nicely correct and even exemplarily disinterested; who, it is notorious, have sacrificed and are sacrificing the interests of their families to their public zeal; who, whenever the necessity of resisting the machinations of the enemies of the public quiet will permit them to retire, will retire poorer than they came into office, and will have to resume under numerous disadvantages the pursuits which they before followed under every advantage. Shame, where is thy blush? — if detraction so malignant as this can affront the public ear. Integrity, where is thy shield? where thy reward?—if the poisonous breath of an unprincipled cabal can pollute thy good name which thou incessantly toiled to deserve.

People of America, can ye be deceived by arts like these? Will ye suffer yourselves to be cheated out of your confidence in men who deserve it most? Will ye be the dupes of hypocritical pretenders?

Think for yourselves. Look around you. Consult your own experience. If any of you have doubts, listen calmly and dispassionately to the arguments and facts which, in the course of the following numbers, shall be opposed to the suggestions which would persuade you that the administration of your government has been in the aggregate weak or wicked, or both.

### NUMBER TWO

Of all the measures of the government, that which has been most bitterly inveighed against is the fund-

ing system, contained in the act making provision for the debt of the United States. As well for this reason, as on account of its superior importance, the objections which have been made to it are entitled to an examination in the first place.

It is a curious phenomenon in political history (not easy to be paralleled), that a measure which has elevated the credit of the country from a state of absolute prostration to a state of exalted pre-eminence, should bring upon the authors of it obloquy and reproach.

It is certainly what, in the ordinary course of human affairs, they could not have anticipated. They are not here chargeable with arrogance, if they indulged from it the hope of credit and applause; and if the clamors which have been raised have truly proceeded, as the clamorers assure us, from patriotic motives, it must be confessed that they have the additional merit of novelty and singularity.

There must be something original in the passions as well as in the ideas of the sect to which they are attributable. It will be hardly possible not to believe, that some mysterious work of political regeneration has begun to make its way in the world, and that all those who have not been the subjects of it are in a state of pitiable darkness and error.

The two first points which, in considering the funding system, present themselves to attention, are the *existence* and the *composition* of the debt funded.

A person who, unacquainted with the fact, should learn the history of our debt from the declamations with which certain newspapers are perpetually

charged, would be led to suppose that it is the mere creature of the *present* government for the purpose of burthening the people with taxes, and producing an artificial and corrupt influence over them; he would, at least, take it for granted that it had been contracted in the pursuit of some wanton or vain project of ambition or glory; he would scarcely be able to conceive that every part of it was the relict of a war which had given independence and preserved liberty to the country; that the present government found it as it is, in point of magnitude (except as to the diminutions made by itself), and has done nothing more than to bring under a regular regimen and provision what was before a scattered and heterogeneous mass.

And yet this is the simple and exact state of the business. The whole of the debt embraced by the provisions of the funding system consisted of the unextinguished principal and arrears of interest of the debt which had been contracted by the United States in the course of the late war with Great Britain, and which remained uncancelled, and the principal and arrears of interest of the separate debts of the respective States contracted during the same period, which remained *outstanding and unsatisfied, relating to services and supplies for carrying on the war.* Nothing more was done by that system than to incorporate these two species of debt into the mass, and to make for the whole one general, comprehensive provision.

There is, therefore, no arithmetic, no logic, by which it can be shown that the funding system has augmented the aggregate debt of the country. The

sum total is manifestly the same; though the parts which were before divided are now united.

There is, consequently, no color for an assertion that the system in question either created any *new* debt, or made any addition to the *old*.

And it follows that the collective burthen upon the people of the United States must have been as great *without* as *with* the union of the different portions and descriptions of the debt. The only difference can be, that without it that burthen would have been otherwise distributed, and would have fallen with unequal weight instead of being equally borne as it now is.

These conclusions which have been drawn respecting the non-increase of the debt proceed upon the presumption that every part of the public debt, as well that of the States individually as that of the United States, was to have been honestly paid.

If there is any fallacy in this supposition, the inferences may be erroneous, but the error would imply the disgrace of the United States, or parts of them—a disgrace from which every man of true honor and genuine patriotism will be happy to see them rescued.

When we hear the epithets, "vile matter," "corrupt mass," bestowed upon the public debt, and the owners of it indiscriminately maligned as the harpies and vultures of the community, there is ground to suspect that those who hold the language, though they may not dare to avow it, contemplate a more summary process for getting rid of debts than that of paying them. Charity itself cannot avoid concluding from the language and conduct of some men (and

some of them of no inconsiderable importance), that in their vocabularies *creditor* and *enemy* are synonymous terms, and that they have a laudable antipathy against every man to whom they owe money, either as individuals or as members of the society.

It has been said that the sum of the debt to be ultimately provided for has been artificially increased by the plan for the settlement of accounts between the United States and individual States. This point will most properly be the subject of a distinct examination, as the act which settles the accounts is a distinct one from that which establishes the funding system. It will appear, upon examination, that there is no foundation for the assertion, and, moreover, that the plan which has been adopted by the present government for the settlement of the accounts is essentially a recapitulation of that which was adopted under the Confederation, and which established principles which were not only equitable in themselves, but could not have been reversed without an infraction of the public faith.

### NUMBER THREE

My last number contained a concise and simple statement of facts tending to show that the public debt was neither created nor increased by the funding system, and, consequently, that it is not responsible either for the existence or the magnitude of the debt.

It will be proper next to examine the allegations which have been made of a contrary tendency.

In the first place, it is asserted that the debt is

greater than it ought to be, because, from the state of depreciation in which the government found it, a much less provision for it than that which was made might have sufficed. A saving of nearly one half, it is said, might have been made by providing for it in the hands of alienees, at least at 8*s*. or 10*s*. in the pound, who, having come by it at a much less rate, would have been well compensated by such a provision.

To a man who entertains correct notions of public faith, and who feels as he ought to feel for the reputation and dignity of the country, it is mortifying to reflect that there are partisans enough of such a doctrine to render it worth the while to combat it. It is still more mortifying to know that in that class are comprehended some men who are in other respects sober-minded and upright, friends to order, and strenuous advocates for the rights of property.

In reasoning upon all subjects, it is necessary to take, as a point of departure, some principle in which reasonable and sound minds will agree. Without this there can be no argument, no conclusion, in moral or political more than in physical or mathematical disquisitions.

The principle which shall be assumed here is this, that the established *rules of morality and justice are applicable to nations as well as to individuals;* that the *former* as well as the *latter* are bound *to keep their promises; to fulfil their engagements to respect the rights of property* which others have acquired under contracts with them. Without this there is an end of all distinct ideas of right or wrong, justice or

injustice, in relation to society or government. There can be no such thing as rights, no such thing as property or liberty; all the boasted advantages of a constitution of government vanish into air. Every thing must float on the variable and vague opinions of the governing party, of whomsoever composed.

To this it may be answered that the doctrine, as a general one, is true, but that there are certain great cases which operate as exceptions to the rule, and in which the public good may demand and justify a departure from it.

It shall not be denied that there are such cases; but as the admission of them is one of the most common as well as the most fruitful sources of error and abuse, it is of the greatest importance that just ideas should be formed of their true nature, foundation, and extent. To minds which are either depraved or feeble, or under the influence of any particular passion or prejudice, it is enough that cases are only attended with some *extraordinary circumstances* to induce their being considered as among the exceptions. *Convenience* is with them a substitute for *necessity*, and some temporary, partial advantage is an equivalent for a fundamental and permanent interest of society. We have too often seen in the United States examples of this species of levity. The treaties of the United States, the sacred rights of private property, have been too frequently sported with, from a too great facility in admitting exceptions to the maxims of public faith and the general rules of property. A desire to escape from this evil was a principal cause of the union which took place among good men to

establish the national government; and it behoved its friends to have been particularly cautious how they set an example of equal relaxation in the practice of that very government.

The characteristics of the only admissible exceptions to the principle that has been assumed, are—1st. NECESSITY. 2d. There being some intrinsic and inherent quality in the thing which is to constitute the exception, contrary to the social order and to the permanent good of society.

Necessity is admitted in all moral reasoning as an exception to general rules. It is of two kinds, as applied to nations—where there is want of ability to perform a duty, and then it is involuntary; and where the general rule cannot be observed without some *manifest* and *great* national calamity.

If from extraordinary circumstances a nation is disabled from performing its stipulations, or its duty in any other respect, it is then excusable on the score of inability. But the inability must be a real, not a pretended, one; one that has been experimentally ascertained, or that can be demonstrated to the satisfaction of all honest and discerning men. And the deviation ought to be as small as possible; all that is practicable ought to be done.

A nation is alike excusable in certain extraordinary cases for not observing a right or performing a duty, if the one or the other would involve a *manifest* and *great* national calamity. But here, also, an extreme case is intended; the calamity to be avoided must not only be evident and considerable — it must be such an one as is like to prove fatal to the nation, as

threatens its existence, or at least its permanent welfare.

War, for instance, is almost always a national calamity, of a serious kind; but it ought often to be encountered in protection *even* of a *part* of the community injured or annoyed; or in performance of the condition of a defensive alliance with some other nation.

But if such special circumstances exist in either case, that the going to war would eminently endanger the existence or permanent welfare of the nation, it may excusably be forborne.

Of the second class of exceptions, the case of certain feudal rights, which once oppressed all Europe, and still oppress too great a part of it, may serve as an example; rights which made absolute slaves of a part of the community, and rendered the condition of the greatest proportion of the remainder not much more eligible.

These rights, though involving that of property, being contrary to the social order, and to the permanent welfare of society, were justifiably abolished in the instances in which abolitions have taken place, and may be abolished in all the remaining vestiges.

Wherever, indeed, a right of property is infringed for the general good, if the nature of the case admits of compensation, it ought to be made; but if compensation be impracticable, that impracticability ought not to be an obstacle to a clearly essential reform.

In what has been said, the cases of exception have been laid down as broad as they ought to be. They are cases of extremity—where there is a palpable

necessity—where some great and permanent national evil is to be avoided—where some great and permanent national good is to be obtained. It must not be to avoid a temporary burthen or inconvenience—to get rid of a particular, though a considerable evil, or to secure a partial advantage. A relaxation of this kind would tend to dissolve all social obligations—to render all rights precarious, and to introduce a general dissoluteness and corruption of morals.

A single glance will suffice to convince that the case of the debt of the United States was not one of those cases which could justify a clear infraction of the fundamental rules of good faith, and a clear invasion of rights of property acquired under the most unequivocal national stipulations.

If there was any doubt before, the real facility with which a provision for the debt has been made removes it; a provision which touches no internal source of revenue but the single article of distilled spirits, and lays upon that a very moderate duty.

But a history of the real state of the debt when it was taken up by the government will put the matter out of all doubt. This shall constitute the subject of my next number.

## NUMBER FOUR

The debt proper, or the original debt of the United States, in its primary sense, may be classed under four general heads: 1st, the old emissions of Continental money; 2d, the loan office debt, contracted for moneys lent to the government; 3d, the army

debt, contracted for the pay and commutation of the army; 4th, the debt of the five great departments, as they are called in the resolution of Congress, being for services and supplies in the Marine Department, the Quartermaster's, Commissary's, Clothing, and Hospital Departments.

Emanations from these were the registered debt, so denominated from new kinds of certificates issued by the Register of the Treasury in lieu of the former evidences. Indents of interest being a species of paper payable to bearer, which, by different resolutions of Congress, were issued on account of arrears of interest on the old debt. The new emission money is not added to the enumeration, because it was issued upon funds of the respective States, with only a guaranty of the United States, and falls, perhaps, most properly, in the class of State debts.

Of this original debt, it appears by a statement of the Register of the Treasury, published Sept. 30, 1791,[1] not less than $16,900,203 73 in its first concoction, belonged to citizens of the States from Pennsylvania to New Hampshire inclusively; the remaining belonging to States from Maryland to Georgia inclusively, in nearly the following proportions: to Maryland, $1,697,910 34; to Virginia, $1,024,104 26; to North Carolina, $28,994 75; to South Carolina, $299,109 88; to Georgia, $97,233 03. The reasons of this state of things are obvious. Until

[1] This date and all the figures which follow are blank in the edition of 1850. I have filled them from the Register's report, which I think must be the one referred to, of Sept. 30, 1791. (See *American State Papers*, "Finance," vol. i., p. 149.)

the year 1779 the principal theatre of the war had been in the States from Pennsylvania north; and after that period, to the close of it, the principal part of the enemy's force remained stationary at New York, which obliged the keeping up in the same quarter large bodies of troops till the termination of the war.

The natural consequence of this state of things was, that a very large proportion of the means for carrying on the war—men, money, and other supplies—were drawn from the States comprehended in the first division. They indeed possessed greater comparative resources than the more southern States, and with only the same degree of zeal could furnish more to the common cause. Obvious causes always conspire to occasion larger aids to be drawn from the vicinity of the war than from more distant parts of the country, and the main dependence of the United States being credit, a large debt was created in the scene from which the principal supplies came.

The use of this statement of the original distribution of the debt will appear hereafter.

A leading character of every part of the debt is, that it was in its origin made alienable. It was payable to the *holder*, either in capacity of assignee or bearer, far the greatest part of the latter description. The contract, therefore, was, in its very *issue*, a contract between the government and the actual holder.

A considerable part of the debt was consequently alienated by the first proprietors at different periods, from its commencement down to the time of passing the funding act.

But this has been much exaggerated, both as to the

quantity alienated and as to the rates of alienation. The declamations on the subject have constantly represented far the greatest part of the debt in the hands of alienees, and have taken the lowest price at which it ever was in the market as the common standard of the alienation. The changes have been rung upon two shillings and sixpence in the pound, in all the arguments which have advocated a violation of the rights of the alienees.

Neither the first nor the last supposition is true. As to the first point, namely, the quantity of the debt alienated, there are no documents by which it can be satisfactorily ascertained, which of course gives full scope to imagination.

But there is an important fact which affords strong evidence that the quantity has always been much less considerable than has been supposed.

In the year 1786 the State of New York passed a law permitting the holders of Continental securities to bring them in and receive in exchange for them State securities upon certain conditions, which were generally deemed for the advantage of the holders to accept. The same arrangement embraced an exchange of old State securities for new.

In the event of this exchange, which was completed by the 1st of May, 1787, it appeared that about two thirds [1] of the debt remained in the hands of the original proprietors.

[1] This as well as the two preceding dates is blank in the edition of 1850. The dates are filled from the laws of New York for 1786. The proportion of alienated debt I have calculated from the returns of the State Treasurer of New York.—*American State Papers*, "Finance," i.,

Alienations after this period. . . .

It may be stated as a fact, that there always has prevailed in the States north of New York, a more firm confidence in an eventual provision for the debt than existed in that State; and it may be inferred that the alienation was still less in those States than in the State of New York.

In Jersey and Pennsylvania, it is probable that the alienations were not more considerable in their degree than in New York. In Maryland they may be supposed to have been still less, on account of that State having made a better provision for its debt than any other, and having included in it Continental securities in the hands of its own citizens by an exchange of certificates.

It is probable from information, though not certainly known, that a more considerable alienation in proportion had taken place in the States south of Maryland. But making all due allowance for this, and taking into the account that the principal part of the debt was originally owned from Pennsylvania north, the probability still is, that the progress of alienation has been much less rapid than has been conjectured. Nothing is more natural than a mistake on this point. The dealers in the debt in the principal cities appeared to be continually engaged in buying and selling large sums; and it has not been their fault generally, to underrate the extent of their

p. 30. The "Alienations" since May, 1787, I have not been able to ascertain. This defence of the funding system was not apparently published, hence its incomplete state and the consequent blanks for figures.

dealings. Thence it came to be imagined that the whole debt, or the greatest part of it, was in the market; whereas a small sum comparatively was sufficient to satisfy all the appearances. Bandied incessantly from hand to hand, a few hundred thousand dollars appeared like as many millions.

The best inquiries on the subject will lead to an opinion that there never was, prior to the funding system, three millions of dollars of floating debt in all the great stock markets of the United States. And the whole sum which had been acquired by foreigners, was about ———. From all which it is very questionable whether one third of the debt in the hands of alienees at the time when Congress began to deliberate concerning a provision for it would not be an ample allowance.

With regard to the terms of alienation, they have varied from 20*s.* down to 2*s.* 6*d.* in the pound.

There are several considerable classes of alienees, who hold the debt at full or high values:

I. Those who advanced moneys or furnished supplies to public officers upon loan-office certificates, issued to those officers in their own names. An example of this exists in the cases of purchases made during the war by public officers. Warrants from the Treasury would frequently be drawn in their favor upon the commissioners of loans, who would often furnish loan-office certificates in their own names in payment of those warrants. For these certificates the officers would sometimes procure the current paper in exchange, and would transfer the certificates to those who advanced the money. In other cases

they would pay for supplies in the certificates themselves, which they would in like manner transfer. This is a very extensive case.

II. Those whose money has been placed in the funds by trustees or agents, who took out certificates in their own names, and afterwards assigned them to the true proprietors.

An instance of this was mentioned in the debates in Congress on the subject of a discrimination between original and present holders, and can be ascertained by any one who will take the pains to inquire. It was that of a Mr. Caldwell, a respectable clergyman and zealous patriot in New Jersey, who acted for some time during the war in the capacity of deputy quartermaster. In that capacity he frequently had money to pay to individuals, which, at their desire, he would place in the loan-office for them, take certificates in his own name, and afterwards transfer them to the persons whose money he had deposited. There are likewise instances, not a few, of trustees and agents for absent persons and minors, who placed the moneys of those whom they represented in the loan-offices, took out certificates in their own names, and afterwards transferred them to the parties entitled.

III. Those who, by laws of particular States, were compelled to take certificates at the full value in payment of debts.

A law of the State of New York, passed in the year ——, obliged all persons who had resided within the British lines during the war to receive, in satisfaction of their debts from those who had been without the lines, certificates.

IV. Those who, at different periods, voluntarily received certificates in payment of debts. This, in some States, is a very extensive case. From the precarious situation in which all persons were placed by the Revolution, whose property was merely personal, it was no uncommon thing for creditors to receive from their debtors certificates in payment of debts; and this was almost always at high values.

Even since the peace, compromises between creditors and debtors, especially those whose fortunes had been injured by the war, in which certificates were received at full value.—*Cætera desunt.*

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## PAYMENTS OF PUBLIC DEBT

August 29, 1792.

The following authentic documents respecting the progress which has been made by the *present* Government of the United States, toward extinguishing the debts contracted under the former Government, will, it is presumed, be very acceptable to the people of the United States; and it is hoped that the different editors of newspapers will give the information the general circulation which its importance merits.

I

TREASURY DEPARTMENT,
REGISTER'S OFFICE, August 24, 1792.

SIR:—I have the honor to enclose an abstract and statement of the debt incurred by the late Government, and which has been paid off from the funds of the present Government, amounting to one million eight hundred and forty-five thousand two hundred and seventeen

dollars forty-two cents; but this sum will be increased, when the balance of three hundred and ninety-seven thousand twenty-four dollars thirteen cents, remaining to be appropriated to the further purchase of the public debt, shall be applied, and which more particularly appears by the subjoined statement.

With every sentiment of the highest respect, I have the honor to be, Sir,

Your most obedient and most humble servant,

JOSEPH NOURSE,
*Register.*

HON. ALEXANDER HAMILTON,
*Secretary of the Treasury.*

II

*Statement of the balance which remains to be applied to the further purchase of the Public Debt*

By the Act passed 12th August, 1790, making provision for the reduction of the Public Debt, Section 2d, it is enacted, That all such surplus of the product of the duties arising from impost and tonnage to 31st December, 1790, after satisfying the several appropriations therein specified, shall be applied to the purchase of the public debt.

| | |
|---|---|
| The product of said duties were . . | $3,026,070 65⅛ |
| The total appropriations were . . | 1,687,194 81 |
| The surplus fund to 31st December, 1790 | $1,338,875 84⅛ |
| Deduct the amount paid for $1,456,743 18 of the public debt extinguished as per abstract . . . . . | 941,851 69 |
| Leaves a balance which remains to be applied to the further purchases of the public debt . . . . | $397,024 15⅛ |

III

*An abstract Statement of the sum extinguished of the Public Debt, also of the payment from the funds of the present Government of certain claims which were incurred by the late Government.*

PURCHASES OF THE PUBLIC DEBT

| | |
|---|---|
| Amount thereof extinguished . . . | $1,456,743 38 |
| Warrants drawn by the Board of Treasury under the late Government, and which have been discharged in pursuance of the Act of Congress of 29th September, 1789 . . . . | 157,789 94 |
| Civil List: for various payments made upon accounts which originated under the late Government . . . | 25,768 50 |
| War Department, being for arrearages of pay due to sundry officers of the army, and for provisions furnished . . | 7,308 40 |
| Abraham Skinner, late Commissary General of Prisoners, for the Board of American Prisoners of War at Long Island; appropriated by Congress, per their Act passed 12th August, 1790 | 38,683 13 |
| Representatives of Mr. de Decoudray, balance of pay . . . . . | 2,977 24 |
| Ditto Hon. John Laurens, his salary on an embassy to the French Court . . | 6,017 31 |
| Francis Dana, salary on an embassy to the Court of St. Petersburg . . | 2,410 30 |
| Benson, Smith, and Barker, their expenses attending the embarkation of the British troops at New York . . | 1,000 00 |

| | |
|---|---|
| His Most Christian Majesty, for military and ordnance stores supplied to American ships of war in the French West Indies . . . . . | $ 29,029 68 |
| Oliver Pollock, for balance due him for supplies at New Orleans, with interest thereon, in conformity with the several Acts of Congress . . . | 108,605 00 |
| MM. Gardoqui & Son, balance due for supplies furnished in Spain . . . | 502 86 |
| | $550,542 14 |
| Bills of exchange, which had been drawn on Foreign Commissioners, not paid by them . . . . . | 4,185 50 |
| Timothy Pickering, late Quartermaster-General, being on account of the appropriation of $40,000, passed July 1, 1790 . . . . . | 2,077 89 |
| *Grants of Congress, viz.:* | |
| John McCord, per Act of Congress of 1st July, 1790 . . . . . | 1,309 71 |
| Jehoakim M. Tocksin, per Act of Congress of the 26th of March, 1790 . . | 120 00 |
| Baron de Glaubeck, per Act of 29th September, 1789 . . . . . | 140 26 |
| Seth Harding, per Act 11th August, 1790 . | 200 00 |
| Caleb Brewster, ditto, ditto . . . | 348 57 |
| | $2,118 54 |
| | $1,845,217 42 |

TREASURY DEPARTMENT,
*Register's Office, August 23, 1792.*

JOSEPH NOURSE,
*Register.*

## CIVIS TO MERCATOR

### I

September 5, 1792.

Certain Treasury documents were lately published for the information of the community, without any precise designation of the purpose for which they were published. They were left to speak for themselves, with only a short introduction, denominating them "Authentic documents respecting the progress which has been made by the present Government of the United States towards extinguishing the debts contracted under the former Government."

A writer in this *Gazette*[1] of Saturday last, under the signature of Mercator, has thought fit to come forward, and, assigning what he conceives to be the object of the publication, endeavors to show that the contrary of what was intended is true.

What right had Mercator to suppose, that any thing more was intended, than simply to inform the public *that besides a punctual payment of the interest on the debt, from the period at which measures were matured to begin that payment, a considerable sum of the Capital of the Debt has been extinguished, and that a further sum will be extinguished by a provision already made?* leaving them to this very natural inference, which

[1] The *National Gazette*, edited by Philip Freneau. This newspaper and its editor, as is well known, caused the outbreak of the quarrel between Hamilton and Jefferson. Hamilton opened his attacks in response to those of Freneau just before the appearance of this letter. "Civis to Mercator" has hitherto been printed among the essays of the Jefferson controversy, but, as it is simply a defence of the funding system against the attacks of Freneau, it seems to belong more properly here among the writings on finance.

will be drawn by every candid mind, that the Government has been as attentive as circumstances would permit, at so early a period, to the extinguishment of the debt.

But admitting Mercator to be right in his suggestion of the object, it is presumed that a liberal construction of all circumstances will justify the position, that the present Government has reduced the debt of the former Government to the extent expressed in the documents which have been published. This will result, if it shall appear that provision was made for the interest as early as was reasonably practicable. To have paid the interest from that period, and to have sunk so much of the capital in addition, is, in fair construction, to have reduced the debt to the extent of the capital sunk.

When Mercator undertook to suppose an object which was not declared, he ought to have taken care to be better informed and more accurate. When he undertook to state an account with the Treasury Department, he ought not only to have selected just items, to have adverted to dates, times, and possibilities, but he ought to have stated *the whole account.*

This he has not done; on the contrary he has both misrepresented and suppressed facts. He has shown in the true spirit of a certain junto (who, not content with the large share of power they have in the government, are incessantly laboring to monopolize the whole of its power, and to banish from it every man who is not subservient to their preposterous and all-grasping views), that he has been far more solicitous to *arraign* than to manifest the truth—to take away,

than to afford consolation to the people of the Unite States.

The following particulars are proofs of his wan both of accuracy and candor.

First.—He charges to the Treasury Departmen arrears of interest which accrued *prior* to its existenc that is, from the 1st of August, 1789; whereas th department was not instituted till the 2d of Sep tember, nor organized till about the 13th, when, I an informed, the Secretary of the Treasury entered upo the duties of his office.

Secondly.—He takes as the standard of his calcula tion, the whole amount of the annual interest on th whole amount of the public debt, as it exists unde the present funding system, including all the arrear of interest made principal, and the $21,500,000 of as sumed debt—whereas the arrears which did actuall accumulate to the end of the year 1790, were only o the *principal* of the foreign and domestic debt, an fall short more than a million of dollars of the sum h states.

These simple facts prove the fallacy of his state ment.

But the principle upon which he proceeds is no less absurd than his calculations are fallacious.

With as much propriety might an executor b charged with increasing the debts of his testator, b suffering the arrears of interest on his bonds an notes to accumulate, while he was collecting, arrang ing, and disposing of the estate, as the present Gov ernment, or, if the phrase is preferred, the presen Treasury Department, may be charged with thos

arrearages which unavoidably accrued during the preparatory measures for bringing the resources of the public estate into activity. With as much reason might it be charged with the $13,000,000 of interest, which accumulated under the imbecile system, the old Confederation, to which, if not to worse,—a dissolution of the Union!—the designs of the junto evidently point or tend.

When, proceeding upon grounds so loose and unjust, Mercator makes the extraordinary declaration, that the Secretary of the Treasury "has *produced* an *actual addition* to the public debt of more than one million and a half of dollars," is it not palpable, that in the most malignant spirit of party he is endeavoring to destroy the public confidence in that officer, no matter how unfair the means, as one link in the chain of measures by which the domineering aims of his party are to be effected, or the cause of confusion promoted? Is it not clear that, in the language and conceptions of Mercator, to *provide for* a debt and to "*produce*" it, amount to the same thing?

To form a still better estimate of the spirit by which he is actuated, let there be a review of some leading facts.

Congress met under the present Government on the 1st of April, 1789. To put it in motion they had a vast and very arduous work before them. This was of course a primary object; a provision for the debt, a secondary one. It was natural then, that the first session should have been exhausted in *organizing* the Government, and that a systematic provision for the debt should be postponed, as in fact it was, to the

second session. A temporary and partial provision of revenue only was accordingly made by very moderate duties of impost, far short of an adequate fund for the support of Government and the payment of the interest on the debt, to take effect on the 1st of August, 1789; which was as early as the law could be promulgated throughout the Union, and the subordinate executive arrangements made for carrying it into execution.

It has been stated that the Treasury Department began to be in activity on the 13th of September. Congress adjourned on the 29th of that month, after having instructed the Secretary of the Treasury to report concerning the debt at *the ensuing session.* It is to be recollected that without an order of the House that officer can propose nothing.

It is evident that there was no responsibility on the side of that department for the accumulation of interest on the debt until, at earliest, the second session, which began on the 7th of January, 1790.

On Thursday, the 14th of January, the Secretary of the Treasury submitted to the House of Representatives, according to order, the plan of a provision for the public debt, comprehending an additional provision of revenue for the purpose of facing the interest. But it was not till the 4th of August that the principles of a provision for the debt were determined by law, nor till the 10th of the same month that a supplementary fund was established for paying the interest upon it; and from considerations of an obvious nature the commencement of this fund in operation was deferred to the 1st of January following.

Here, again, 't is manifest that there was no responsibility in the Treasury Department for the accumulation of interest up to the period from which it has been punctually paid—namely, the 1st of January, 1791,—because it was not in the power of that department to have accelerated a provision for it. Nor will any blame justly light upon Congress for the moderate delay which ensued. It was their duty to bestow much deliberation upon the subject. Much difference of opinion—much discussion—a considerable loss of time, were to be expected in relation to a subject so momentous, so perplexing, touching so differently so many chords of passion and interest.

The law providing for the debt having passed, the Secretary of the Treasury immediately seized the opportunity which was afforded by an unappropriated surplus of revenue to the end of the year 1790 to make an impression on the debt. He proposed that it should be applied to purchases of the debt at its market prices, which was agreed to by Congress, and has been carried into execution as far as circumstances have hitherto permitted.

This was certainly the best application that could have been made of the fund. It was equally the interest of the Government and of the public creditors:—of the Government, because it was a clear gain of all the difference between the sum of specie paid and the sum of debt redeemed, which is already $514,891 69, and will be more when the remaining sum appropriated comes to be applied to further purchases; because it was a clear saving to the nation of all the difference in price which was paid by foreigners

in their purchases, in consequence of the competition of the Government in the market as a purchaser. It is well known to every well-informed man that the rapid appreciation of the debt was materially owing to that circumstance, and of course the saving to the nation by it has been *very considerable*. The measure in question was equally beneficial to the public creditors—because, if the fund applied to purchases had been apportioned among them in payment of interest, it would have been a mere pittance; but applied as it was, it gave a rapid spring to the whole value of the stock.

As it is therefore proved that the Treasury Department is chargeable with no delay with regard to a provision for the debt, occasioning an unnecessary accumulation of interest, in a question of merit respecting that department which MERCATOR has raised, it will follow that the department, on account of the operations which have been advised by it, has an unbalanced claim of merit with the community—

1st.—For all that has been or shall be saved by purchases of the public debt at the market prices.

2d.—For all that has been saved to the nation, for the more advanced prices given by foreigners in their purchases of the debt.

But there are other items of importance to be placed on the same side of the account.

1st.—The saving resulting from the reduced rate on the new loans for paying off the foreign debt.

2d.—The positive gain of 1,000,000 of dollars, by the institution of the Bank of the United States. The stock of the bank being at an advance of 50 per cent.,

it is clear that the Government, by having become a proprietor to the extent of 2,000,000 of dollars, has by this single operation made an actual net profit of 1,000,000 of dollars—that is, it can get three millions for what will have cost it only two.

I add nothing for any saving which has accrued from the particular modification of the domestic debt, for two reasons: one, because the subject being more complicated would require more illustration; and the other, because the plan adopted by the Legislature, though having the leading features of that proposed by the Treasury Department, differs from it in some material respects,—a strong refutation of the idea, so industriously inculcated, that the plans of that department are implicitly followed by the Legislature, and a decisive proof that they have had no more weight than they ought to have had—that is to say, than they were entitled to from their intrinsic reasonableness in the unbiassed and independent judgment of majorities in the two Houses of Congress. The result of what has been said is this: that provision was made for paying the interest of the debt as early as could reasonably have been expected; that no negligence having happened, the arrears of interest which have accumulated in the interval are properly a part of the debts of the former Government; and consequently, that the sums which appear to have been absorbed are so much of the debts of the *old* Government extinguished by the *new*.

Mercator brings as a proof that the public debt has increased and is increasing, what he terms "the present amount and *increasing* weight of the duties of

impost and excise." Let facts decide the soundness of this logic. In the last session of Congress, the only excise duty which exists was reduced upon an average fifteen per cent. The only addition which was then made to the imposts was for carrying on the Indian war, and by avoiding recourse to permanent loans for that purpose, to *avoid an increase of the debt.* How then can that which was done to avoid an increase of debt, *be a proof that it has increased?*

CIVIS.

II

PHILADELPHIA, September 11, 1792.

Little other notice of the futile reply of Mercator to Civis is necessary, than merely to put in a clear light the erroneousness of the standard which he has adopted for calculating the arrears of interest to the end of the year 1790.

He takes for his standard, the *present* annual interest on the *whole* amount of the public debt, as provided for *under the funding system*—that is, 1st. Upon the *former principal* of the foreign and domestic debt; 2d. Upon the *arrears of interest* of that principal, which on the 1st of January, 1791, and *not before*, became principal, by the provisions of the funding law; 3d. Upon the whole amount of the assumed debt —that is, $21,500,000.

Now, the fact is, that the only arrears which can colorably be computed are those on the principal of the *foreign* and *domestic debt*, according to the terms of interest which they *actually bore* up to the 1st January, 1791. 1st. Because, in fact, the arrears of

interest on that principal *did not bear interest* till the 1st of January, 1791; and consequently *no interest whatever accrued upon them.* And 2d, because the Government of the United States took up the State debts as they stood at the end of the year 1791. If arrears of interest accumulated in the meantime, 't was the affair of the State governments, which were the debtors and alone responsible for a provision for it, not of the Government of the United States, which only became responsible by virtue of the assumption from the time that it took effect—that is, from the 1st of January, 1792, from which period the interest has been punctually paid. This is the true view of it, unless it can be shown that the Government of the United States is answerable for the neglects and omissions of the State governments. But what arrears may have really accumulated on this part of the debt is unknown, as it is understood there was in some States a provision for the interest.

Calculating then the arrears which did actually accrue—that is, on the principal and interest of the foreign and domestic debt, the former, according to the various rates which were stipulated upon it, and the latter at six per cent., the rate which it then bore, from the 1st of August, 1789, to the 1st of January, 1791, from which period interest has been paid, the amount is $3,003,378 47—that is, $1,032,980 72 less than the amount of the arrears for the same period by Mercator. This statement is not made from any secret sources of information, but from documents long since in the possession of the public. If Mercator has been inattentive to the means of

information he ought not to come forth the instructor of his fellow-citizens.

In a mere question of the *increase* and *decrease* of the public debt, if the arrears of interest which accrued on the assumed debt, up to the period from which the United States began to pay interest upon it, be placed on one side of the account, the saving or reduction, by the nature of the provision for it, ought to be placed on the other side, and the balance will be in favor of the United States.

Had Mercator stated an account with the Treasury Department on his own principle candidly applied—namely, that of setting off the surplus of revenue to the end of the year 1790 against the amount of the debt redeemed by purchasers and payments, the account would have stood thus:

*Debtor Side*

| | |
|---|---|
| To amount of surplus revenue at the end of the year 1790 . . . . | $1,338,875 84 |

*Credit Side*

| | |
|---|---|
| By the amount of the sum which appears by the statement of the Register of the Treasury to have been redeemed and paid off . . . . . | $1,845,217 42 |
| By sum remaining to be applied . . | 397,024 13 |
| | $2,242,241 55 |
| Balance . . . . | $903,365 71 |

being the amount of the public debt actually reduced beyond the amount of the funds remaining on hand

at the commencement of the operation of the funding system, in virtue of antecedent provision, and exclusive of reductions on the rates of interest.

As to the concluding remarks of Mercator, they depart from the question. 'T is no matter, in reference to that, whether the items which were mentioned are circumstances of temporary expedient or results of the soundest policy. They constitute positive *savings* and gains to the nation.

But it was not sufficient for Mercator to assert; he ought to have shown what sacrifice of justice or principle was involved in them. Not having done it, it is sufficient to observe that one good effect of the measures of finance which have been adopted by the present Government is at least unequivocal. *The public credit has been effectually restored.* This may be in the eyes of Mercator of little moment. There are certain theorists who hold both private and public credit to be pernicious. But their disciples are not numerous; at least among sober and enlightened men.

The actual benefits or actual evils of the measures connected with the Treasury Department, present and future, would be cheerfully submitted to the TEST OF EXPERIENCE. Happy would it be for the country, honorable for human nature, if the experiment were permitted to be fairly made. But the pains which are taken to misrepresent the tendency of those measures, to influence the public mind, to disturb the operations of the Government, are a decided proof, that those to whom they are attributable dare not trust the appeal to such a TEST. Convinced of this, they have combined all their forces,

and are making one desperate effort to gain an ascendency in the public councils, by means of the ensuing election, in order to precipitate the laudable work of destroying what has been done.

CIVIS.

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### FACT

For the *National Gazette*

September 11, 1792.

Much declamation has been indulged against certain characters, who are charged with advocating the pernicious doctrine, that "public debts are public blessings," and with being friends to a perpetuation of the public debt of the country. Among these characters, if the Secretary of the Treasury has not been named, he has been pretty plainly alluded to. It is proper to examine what foundation there is, then, for those charges.

That officer, it is very certain, explicitly maintained, that the *funding* of the existing debt of the United States would render it a national blessing; and a man has only to travel through the United States with his eyes open, and to observe the invigoration of industry in every branch, to be convinced that the position is well founded.

But, whether right or wrong, it is quite a different thing from maintaining, as a general proposition, that a public debt is a public blessing; particular and temporary circumstances might render that advantageous at one time, which at another might be hurtful.

It is known that prior to the Revolution, a great

part of the circulation was carried on by paper money; that in consequence of the events of the Revolution, that resource was in a great measure destroyed, by being discredited, and that the same events had destroyed a large proportion of the moneyed and mercantile capital of the country, and of personal property generally. It was natural to think that the chasm created by these circumstances required to be supplied, and a just theory was sufficient to demonstrate, that a funded debt would answer the end. To infer that it would have such an effect, was no more to maintain the general doctrine of "public debts being public blessings," than the saying, that paper emissions, by the authority of Government, were useful in the early periods of the country, was the maintaining that they would be useful in all the future stages of its progress.

But to put the matter out of all doubt, and to show how destitute of candor the insinuations against the Secretary of the Treasury on this head have been, I have extracted, and shall insert here, some passages from some of his reports to the House of Representatives, by which it will be seen that his conduct as well as his language have been in uniform opposition to the doctrine charged upon him. The length of these reports, it is probable, has prevented many well-disposed persons from being acquainted with their contents, the presumption of which emboldens the calumniators of public characters and measures to make assertions, of the falsehood of which the mere perusal of official documents would convict them.

Extract from a report of the Secretary of the

Treasury on the subject of a provision for the public debt, presented the 14th of January, 1790. "Persuaded, as the Secretary is, that the proper funding of the *present* debt will render it a national blessing; yet he is *so far* from acceding to the position, in the latitude in which it is sometimes laid down, that 'public debts are public benefits,' a position *inviting to prodigality, and liable to dangerous abuse*, that he ardently wishes to see it incorporated, as a *fundamental maxim* in the *system of public credit* of the United States, that the *creation of debt should always be accompanied with the means of extinguishment.* This he regards as the *true secret* for *rendering public credit immortal.* And he presumes that it is difficult to conceive a situation in which there may not be an adherence to the maxim. At least he feels an *unfeigned solicitude* that this may be attempted by the United States, and that they may commence their measures for the establishment of credit with the observance of it."

Extracts from a report of the Secretary of the Treasury on manufactures, presented the 5th December, 1791.

After using several arguments to illustrate the operation of a funded debt as *capital*, the Secretary concludes thus: "There are respectable individuals who, from a *just aversion* to an *accumulation* of public debt, are unwilling to concede to it any kind of utility, who can discover no good to alleviate the ill with which they suppose it pregnant, who cannot be persuaded that it ought in any sense to be viewed as an increase of capital, lest it should be inferred

that the more debt the more capital, the greater the burthens the greater the blessings of the community."

"But it interests the public councils to estimate every object as it truly is; to appreciate how far the good in any measure is compensated by the ill, or the ill by the good; either of them is seldom unmixed."

"Neither *will it follow that an accumulation of debt is desirable*, because a certain degree of it operates as capital. There may be a plethora in the political, as in the natural body; there may be a *state of things in which any such artificial capital is unnecessary.* The debt, too, may be swelled to such a size as that the greatest part of it may cease to be useful as a capital, serving only to pamper the dissipation of idle and dissolute individuals; as that the sums required to pay the interest upon it may become oppressive, and beyond the means which a Government can employ, consistently with its tranquillity, to raise them; as that the resources of taxation, to face the debt, may have been strained too far to admit of extensions adequate to exigencies which regard the public safety."

"Where this critical point is, cannot be pronounced; but it is impossible to believe that there is not such a point."

"And as the vicissitudes of nations beget a perpetual tendency to the accumulation of debt, *there ought to be in every government a perpetual, anxious, and unceasing effort to reduce that which at any time exists, as fast as shall be practicable, consistently with integrity and good faith.*"

Extracts from a report of the Secretary of the Treasury relative to additional supplies for carrying

on the Indian war, presented the 16th of March, 1792.

"The result of mature reflection is, in the mind of the Secretary, a strong conviction that the last of the three expedients which have been mentioned (that was the raising of the sum required by taxes) is to be preferred to either of the other two."

"Nothing can more interest the national credit and prosperity than a constant and systematic attention *to husband all the means previously possessed for extinguishing the present debt, and to avoid, as much as possible, the incurring any new debt.*"

"Necessity alone, therefore, can justify the application of any of the public property, other than the annual revenues, to the current service, or to the temporary and casual exigencies of the country, or the contracting of an additional debt, by loans, to provide for those exigencies."

"Great emergencies might exist in which loans would be indispensable. But the occasions which will justify them must be truly of that description." "The present is not of such a nature. The sum to be provided is not of magnitude enough to furnish the plea of necessity." "Taxes are never welcome to a community. They seldom fail to excite uneasy sensations more or less extensive; hence a too strong propensity in the Government of nations to anticipate and mortgage the resources of posterity, rather than encounter the inconveniences of a present increase of taxes."

"But *this policy when not dictated by very peculiar circumstances, is of the worst kind.* Its obvious tend-

ency is, by enhancing the permanent burthens of the people, to produce lasting distress, and its natural issue is in national bankruptcy."

"It will be happy if the councils of this country, sanctioned by the voice of an enlightened community, shall be able to pursue a different course."

Here is example added to precept. In pursuit of a doctrine, the opposite of that which is charged upon him, the Secretary did not scruple to hazard the popularity of his administration with a class of citizens who, as a class, have been among the firmest friends of the Government, and the warmest approvers of the measures which have restored public credit. The circumstances, indeed, have been a weapon dexterously wielded against him by his enemies, who, in consequence of the increase of duties proposed, have represented him as the oppressor of trade. A certain description of men are for getting out of debt, yet are against all taxes for raising money to pay it off; they are among the foremost for carrying on war, and yet will have neither loans nor taxes. They are alike opposed to what creates debt and to what avoids it.

In the first case their meaning is not difficult to be divined; in the last it would puzzle any man, not endowed with the gift of second sight, to find it out, unless it be to quarrel with and pull down every man who will not consent to walk in their leading-strings; or to throw all things into confusion.

FACT.

## PUBLIC DEBT

(Communicated to the House of Representatives, December 3, 1792.)

TREASURY DEPARTMENT, November 30, 1792.

In obedience to two resolutions of the House of Representatives: one of the 21st instant, directing the Secretary of the Treasury to report a plan for the redemption of so much of the public debt as, by the act entitled "An act making provision for the debt of the United States," the United States have reserved the right to redeem; the other of the 22d instant, directing him to report the plan of a provision for the reimbursement of a loan, made of the Bank of the United States, pursuant to the eleventh section of the act entitled "An act to incorporate the subscribers to the Bank of the United States," the said Secretary respectfully submits the following report:

The expediency of taking measures for the regular redemption of the public debt, according to the right which has been reserved to the Government, being wisely predetermined by the resolution of the House of Representatives referring the subject to the Secretary, nothing remains for him but to endeavor to select and submit the most eligible means of providing for the execution of that important object.

With this view the first inquiry which naturally presents itself is, whether the existing revenues are, or are not, adequate to the purpose.

The estimates which accompany the report of the Secretary, of the 14th instant, will show that, during the continuance of the present Indian war, the appropriations for interest, and the demands for the cur-

rent service, are likely to exhaust the product of the existing revenues; though they afford a valuable surplus beyond the permanent objects of expenditure, which, it is hoped, may erelong be advantageously applied to accelerate the extinguishment of the debt.

In the meantime, however, and until the restoration of peace, the employment of that resource in this way must, of necessity, be suspended, and either the business of redemption must be deferred, or recourse must be had to other expedients.

But did no such temporary necessity for resorting to other expedients exist, the doing of it would still be recommended by weighty considerations. It would appear, in the abstract, advisable to leave the surplus of the present revenues free, to be applied to such casual exigencies as may, from time to time, occur; to occasional purchases of the debt, when not exhausted by such exigencies; to the payment of interest on any balances which may be found due to particular States, upon the general settlement of accounts; and finally to the payment of interest on the deferred part of the debt, when the period for such payment arrives. There is a reasonable prospect that, if not diverted, it will be found adequate to the two last important purposes.

Relinquishing, then, the idea of an immediate application of the present revenues to the object in view, it remains to examine what other modes are in the option of the Legislature.

Loans, from time to time, equal to the sums annually redeemable, and bottomed on the same revenues, which are now appropriated to pay the interest

upon those sums, offer themselves as one expedient which may be employed with a degree of advantage. As there is a probability of borrowing at a lower rate of interest, a material saving would result; and even this resource, if none better could be devised, ought not to be neglected.

But it is obvious that to rely upon this resource alone would be to do little towards the final exoneration of the nation. To stop at that point would consequently be neither provident nor satisfactory. The interests as well as the expectations of the Union require something more effectual.

The establishment of additional revenues is the remaining resource. This, if the business is to be undertaken in earnest, is unavoidable. And a full confidence may reasonably be entertained, that the community will see with satisfaction the employment of those means which alone can be effectual for accomplishing an end in itself so important and so much an object of general desire. It cannot fail to be universally felt that, if the end is to be attained, the necessary means must be employed.

It can only be expected that care be taken to choose such as are liable to fewest objections, and that, in the modifications of the business in other respects, due regard be had to the present and progressive circumstances of the country.

Assuming it as the basis of a plan of redemption, that additional revenues are to be provided, the further inquiry divides itself into the following branches:

1. Shall a revenue be immediately constituted,

equal to the full sum which may at present be redeemed, according to the terms of the contract?

2. Shall a revenue be constituted from year to year, equal only to the interest of the sum to be redeemed in each year, coupling with this operation an annual loan commensurate with such sum? Or,

3. Shall a revenue be constituted each year, so much exceeding the interest of the sum to be redeemed, as to be sufficient, within a short definite term of time, to discharge the principal itself; coupling with this operation also an annual loan equal to the sum to be annually redeemed, and appropriating the revenue created to its discharge, within the term which shall have been predetermined?

The first plan, besides being completely effectual, would be eventually most economical; but considering to what a magnitude the revenues of the United States have grown in a short period, it is not easy to pronounce how far the faculty of paying might not be strained by any sudden considerable augmentation, wheresoever immediately placed; while the rapid progress of the country in population and resource seems to afford a moral certainty that the necessary augmentation may be made with convenience, by successive steps, within a moderate term of time, and invites to temporary and partial suspensions, as capable of conciliating the reasonable accommodation of the community with the vigorous prosecution of the main design. For these and for other reasons which will readily occur, the course of providing immediately the entire sum to be redeemed is conceived *not* to be the most eligible.

The second plan, though much more efficacious than that of annual loans, bottomed on the revenues now appropriated for the payment of interest on the sums to be redeemed, does not appear to be sufficiently efficacious. The schedule A will show the effect of it to the 1st of January, 1802, when the deferred debt will become redeemable in the proportions stipulated. Supposing the investment of the interest which is each year liberated, together with that which has been and will be released by purchases pursuant to provisions heretofore made, in the purchase of 6 per cent. stock; a sum of principal, equal to 2,043,837 dollars and 7 cents, would be sunk, and a clear annuity, equal to 459,212 dollars and 82 cents, would be created, towards further redemptions; but the fund then necessary for the future progressive redemption of the debt, according to the right reserved, would be 1,176,616 dollars and 44 cents, exceeding by 667,403 dollars and 62 cents the amount of the redeeming fund. Something more effectual than this is certainly desirable, and appears to be practicable.

The last of the three plans best accords with the most accurate veiw which the Secretary has been able to take of the public interest.

In its application it is of material consequence to endeavor to accomplish these two points: 1st. The complete discharge of the sums annually redeemable within the period prefixed, and the reimbursement, within the same period, of all auxiliary loans which may have been made for that purpose. 2dly. The constituting, by the expiration of that period, a clear

annual fund, competent to the future redemption of the debt, to the extent of the right reserved.

The period to which it is conceived the plan ought to refer, is the 1st day of January, 1802; because *then* the first payment on account of the principal of the deferred debt may rightfully be made.

In conformity to these ideas, the following plan is most respectfully submitted; premising, that the sum redeemable for the first year of the six per cent. stock, bearing a present interest, is computed at 550,000 dollars.

Let an annual fund be constituted, during the present session, equal to 103,199 dollars and 6 cents, to begin to accrue from the 1st of January, 1793. Let the sum of 550,000 dollars be borrowed upon the credit of this annuity, reimbursable within five years —that is, by the 1st of January, 1799. The sum borrowed to be applied, on the 1st of January, 1794, to the first payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1799, and will, thenceforth, be free for any further application.

The sum redeemable the second year—that is, on the 1st of January, 1795, is computed at 583,000 dollars.

Let an annual fund be constituted, during the second session after the present, equal to 109,391 dollars and 60 cents, to begin to accrue from the 1st of January, 1794. Let the sum of 583,000 dollars be borrowed upon the credit of this annuity, reimbursable within five years—that is, by 1st of January,

1800. The sum borrowed to be applied, on the first of January, 1795, to the second payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1800, and will be, thenceforth, free for any further application.

The sum redeemable the third year—that is, on the 1st of January, 1796, is computed at 617,980 dollars.

Let an annual fund be constituted, during the third session after the present, equal to 115,955 dollars and 17 cents, to begin to accrue from the 1st of January, 1795. Let the sum of 617,980 dollars be borrowed upon the credit of this annuity, reimbursable within five years—that is, by the 1st of January, 1801. The sum borrowed to be applied on the 1st of January, 1796, to the third payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1801.

The sum redeemable the fourth year—that is, on the 1st of January, 1797, is computed at 655,058 dollars and 80 cents.

Let an annual fund be constituted, during the fourth session after the present, equal to 122,912 dollars and 48 cents, to begin to accrue from the 1st of January, 1796. Let the sum of 655,058 dollars and 80 cents be borrowed upon the credit of this annuity, reimbursable within five years—that is, by the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1797, to the fourth payment on account of the principal of the debt.

The proposed annuity will reimburse the sum

borrowed, with interest, by the 1st of January, 1802.

The sum redeemable the fifth year—that is, on the 1st of January, 1798, is computed at 694,362 dollars and 33 cents.

Let an annual fund be constituted, during the fifth session after the present, equal to 152,743 dollars and 12 cents, to begin to accrue from the 1st of January, 1797. Let the sum of 694,362 dollars and 33 cents be borrowed upon the credit of this annuity, reimbursable within four years—that is, by the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1798, to the fifth payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1802.

The sum redeemable the sixth year—that is, on the 1st of January, 1799, is computed at 736,024 dollars and 7 cents.

Let an annual fund be constituted, during the sixth session after the present, equal to 197,680 dollars and 20 cents, to begin to accrue from the 1st of January, 1798. Let the sum of 736,024 dollars and 7 cents be borrowed upon the credit of this annuity, reimbursable within three years—that is, by the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1799, to the sixth payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1802.

The sum redeemable the seventh year—that is, on

the 1st of January, 1800, is computed at 780,185 dollars and 52 cents.

Let an annual fund be constituted, during the seventh session after the present, equal to 272,848 dollars and 38 cents, to begin to accrue from the 1st of January, 1799. Let the sum of 780,185 dollars and 52 cents be borrowed upon the credit of this annuity, reimbursable within two years—that is, by the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1800, to the seventh payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1802.

The sum redeemable the eighth year—that is, on the 1st of January, 1801, is computed at 826,996 dollars and 65 cents.

Let an annual fund be constituted, during the eighth session after the present, equal to 423,583 dollars and 54 cents, to begin to accrue from the 1st of January, 1800. Let the sum of 826,996 dollars and 65 cents be borrowed upon the credit of this annuity, reimbursable within one year—that is, on the 1st of January, 1802. The sum borrowed to be applied on the 1st of January, 1801, to the eighth payment on account of the principal of the debt.

The proposed annuity will reimburse the sum borrowed, with interest, on the 1st of January, 1802.

The sum redeemable the ninth year—that is, on the 1st of January, 1802, is computed at 1,126,616 dollars and 44 cents.

The then existing means for the discharge of this sum, arising from the operation of the plan, will be:

1st. The amount of the annuity constituted the third year, which will have been liberated by reimbursement of the third loan. 2d. The arrears of interest not previously appropriated, and which are computed at 200,000 dollars.

There will consequently be a deficiency, this year, of 810,661 dollars and 27 cents, which will require to be supplied by a temporary loan, to be reimbursed out of the surplus of the fund which, on the 1st of January, 1802, will exist for future redemptions, and which surplus will be sufficient to reimburse this temporary loan in about thirteen years and a half.

It may be proper to remark, that this deficiency upon one year is suffered to exist, to avoid an unnecessary augmentation of revenue materially beyond the sum permanently requisite. No inconvenience ensues, because this temporary deficiency is made up by the surplus of the permanent fund within the period mentioned. And that fund, from the 1st of January, 1802, is adequate to all future redemptions, in the full proportion permitted by the contract.

The table in the schedule B, will show, in one view, the principles and operation of this plan.

The schedule C will exhibit the means of constituting the several annuities proposed to be established. From it will be seen, that the proposed annuities are to be composed, partly of taxes, to be successively laid at the respective periods of creating them, partly of the surplus dividend to be expected on the stock belonging to the Government in the Bank of the United States, beyond the interest to be paid on ac-

count of it, and partly of the funds heretofore pledged for the payment of interest, which will have been liberated upon so much of the debt as will have been extinguished.

The respective amounts of the taxes to be severally laid will be:

| | |
|---|---|
| In the first year . . . . | $ 43,199 06 |
| In the second year . . . | 109,391 60 |
| In the third year . . . | 115,955 17 |
| In the fourth year . . . | 102,912 48 |
| In the fifth year . . . | 102,743 12 |
| In the sixth year . . . | 107,680 20 |
| In the seventh year . . . | 109,649 32 |
| Making together . . | $691,530 95 |

The sum which will have been redeemed *prior* to the 1st day of January, 1802, will be $5,443,607 37. The sum redeemable on the 1st of January, 1802, will be $1,126,616 44; and the fund which will, thenceforth, exist for the purpose of future redemption (as is particularly shown by the schedule D), will be $1,210,744 34, exceeding the sum strictly necessary by $84,127 90—a fund which, including the interest, from year to year liberated, will, as already intimated, be completely adequate to the final redemption of the whole amount of the six per cent. stock (as well the deferred as that bearing a present interest), according to the right which has been reserved for that purpose.

In the meantime, a further impression will be made upon the debt, by the investment of the residue of the funds heretofore established, in the purchase of it; and it is hoped, that the restoration of peace with the

Indians will enable the application of the surplus of the existing revenues, together with the proceeds of the ceded lands in our Western territory, to the same object. These, whenever they can be brought into action, will be important aids, materially accelerating the ultimate redemption of the entire debt. The employment of these resources, when it can be done, by increasing the interest fund, will proportionably lessen the necessity of using the resource of taxation, for creating the proposed annuities—if the Government shall judge it advisable to avail itself of the substitute which may accrue from that circumstance.

Having now given a general view of the plan which has appeared, upon the whole, the most eligible, it is necessary, in the next place, to present to the consideration of the House the requisite funds for commencing the execution of it. These will embrace a provision for the first annuity only, that alone requiring, by the plan, immediate provision. With regard to a provision for the subsequent annuities, which is proposed to be successive, the Secretary will content himself with this general observation, that he discerns no intrinsic difficulty in making provision for them, as fast as shall be necessary, with due convenience to the people, and consistently with the idea of abstaining from taxing lands and buildings (with the stock and implements of farms), reserving them as a resource for those great emergencies which call for a full exertion of all the contributive faculties of a country.

The following means, for constituting the first annuity, are respectfully submitted, viz.:

Annual surplus of the dividend on the stock of Government in the Bank of the United States, beyond the interest to be paid out of the said dividend, estimated at $60,000.

Tax on horses, kept or used for the purpose of riding, or of drawing any coach, chariot, phæton, chaise, chair, sulky, or other carriage for *conveyance of persons*, excepting and exempting all horses which are *usually* and *chiefly* employed for the purposes of husbandry, or in drawing wagons, wains, drays, carts, or other carriages, for the transportation of produce, goods, merchandise, and commodities, or in carrying burthens in the course of the trade or occupation of the persons to whom they respectively belong, and the horses of persons in the military service of the United States, viz.:

For every horse, not above excepted and exempted, at the rate of one dollar per annum where only one is used or kept by the same person, with an addition of fifty cents per annum per horse, where more than one and not more than two horses are kept or used by the same person; with an addition of one dollar per annum per horse, where more than two and not more than four are kept or used by the same person; and, with an addition of one dollar and a half dollar per horse, per annum, where more than four are kept and used by the same person. Provided, That this addition shall not be made, in respect to horses usually employed in public stages, for the conveyance of passengers.

This progressive increase of rates on the higher numbers has reference to the presumption of greater

wealth, which arises from the possession of such higher numbers.

The product of this tax will, probably, be about equal to the residue of the proposed annuity, which is $43,199 06. How near the truth this estimate may prove, experiment alone can, in so untried a case, decide. An aid to this fund may be derived from the surplus dividend on the bank stock, for the half year ending the last of December next, which, it is presumed, will be not less than $20,000. Should a deficiency appear, upon trial, it can be supplied by a future provision.

Proper regulations for the collection of this tax will, it is believed, be found not difficult, if the tax itself shall be deemed eligible. Its simplicity has been a considerable recommendation of it. Qualified as it is, it is not likely to fall on any but such who can afford to pay it. The exemption from the tax, in regard to horses which are appropriated to the purposes of *husbandry*, or of any trade or occupation, or to the transportation of commodities, seems to obviate all reasonable objection.

If, however, there should appear to the Legislature reasons for preferring a tax on carriages for pleasure, which, it may be observed, will operate on nearly the same description of persons, the sum required may, it is believed, be produced from the following arrangements of rates, viz.: Upon every coach, the annual sum of four dollars. Upon every chariot, the annual sum of three dollars. Upon every other carriage *for the conveyance of persons*, having four wheels, the annual sum of two dollars; and, upon

every chair, sulky, or other carriage *for the conveyance of persons*, having less than four wheels, the annual sum of one dollar.

The collection of this tax will be as simple and easy, and perhaps more certain, than that which has been primarily submitted.

With regard to the second object referred to the Secretary, namely, the plan of a provision for the reimbursement of the loan made of the Bank of the United States, pursuant to the eleventh section of the act by which it is incorporated, the following is respectfully submitted, to wit: That power be given by law to borrow the sum due to be applied to that reimbursement: and that so much of the dividend on the stock of the Government, in the bank, as may be necessary, be appropriated for paying the interest of the sum to be borrowed.

From this operation it is obvious that a saving to the Government will result, equal to the difference between the interest which will be payable on the new loan, and that which is payable on the sum now due to the bank. If the proposed loan can be effected at the rate of those last made in Holland, the net saving to the Government may be computed at the annual sum of $35,000; which saving, whatever it may be, is contemplated as part of the means for constituting the proposed annuities.

The benefit of this arrangement will be accelerated if provision be made for the application of the proceeds of any loans, heretofore obtained, to the payment suggested on the condition of replacing the sums, which may be so applied, out of the proceeds of

the loan or loans which shall be made pursuant to the power above proposed to be given.

It will also conduce to the general end in view if the Legislature shall think proper to authorize the investment of the funds, destined for purchases of the debt, in purchases of six-per-cent. stock, at the market price, though above par. The comparative prices of the several kinds of stock have been, and frequently may be, such as to render it more profitable to make investments in the six per cents, than in any other species of stock.

All which is humbly submitted.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*

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## LOANS

IN THE HOUSE OF REPRESENTATIVES
OF THE UNITED STATES,
WEDNESDAY, January 23, 1793.

*Resolved*, That the President of the United States be requested to cause to be laid before this House copies of the authorities under which loans have been negotiated, pursuant to the acts of the 4th and 12th of August, 1790, together with copies of the authorities directing the application of the moneys borrowed.

*Resolved*, That the President of the United States be requested to cause this House to be furnished with the names of the persons by whom and to whom the respective payments of the French debt have been made in France, pursuant to the act for that purpose,

every chair, sulky, or other carriage *for the conveyance of persons*, having less than four wheels, the annual sum of one dollar.

The collection of this tax will be as simple and easy, and perhaps more certain, than that which has been primarily submitted.

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specifying the dates of the respective drafts upon the commissioners in Holland, and the dates of the respective payments of the debt. A similar statement is requested respecting the debts to Spain and Holland.

*Resolved*, That the Secretary of the Treasury be directed to lay before this House an account exhibiting half monthly the balances between the United States and the Bank of the United States, including the several branch banks, from the commencement of those institutions to the end of the year 1792.

*Resolved*, That the Secretary of the Treasury be directed to lay before this House an account of all moneys which may have come into the sinking fund, from the commencement of that institution to the present time, specifying the particular fund from which they have accrued, and exhibiting, half yearly, the sums uninvested, and where deposited.

*Resolved*, That the Secretary of the Treasury be directed to report to this House the balance of all unapplied revenues at the end of the year 1792, specifying whether in money or bonds, and noting where the money is deposited: That he also make report of all unapplied moneys which may have been obtained by the several loans authorized by law, and where such moneys are now deposited.[1]

[1] These resolutions, following certain others offered a month before, were introduced to discredit and break down Hamilton. They were instigated by Jefferson, with the advice and assistance of Madison, and were brought forward in the House by their tool, Giles. This and the following reports, which answered everything completely, were prepared with incredible rapidity, and effectually crushed the assailants.

REPORT OF THE SECRETARY OF THE TREASURY IN PURSUANCE OF THE FOREGOING RESOLUTIONS

TREASURY DEPARTMENT, February 4, 1793.

SIR:

I have lost no time in preparing, as far as has been practicable, consistently with the course of facts, the several statements required by the resolutions of the House of Representatives of the 23d of last month; and I have concluded to add to them such further statements as appeared to me necessary to convey fully the information which is understood to be the object of those resolutions. It was my first intention to submit these statements collectively, with such explanatory remarks as the occasion might demand; but finding, on experiment, from the extent and variety of the matter involved in the resolutions, that more time will be requisite for a full development of it than I had anticipated, considerations of weight in my mind have determined me to present the different parts of the subject successively. Among other advantages, incident to this course of proceeding, will be that of having it in my power to give a more accurate and mature view of the entire subject, without too great a dereliction of the current business of the Department. In executing the task I propose to myself, I shall rely on the indulgence of the House to a latitude of observation corresponding with the peculiar circumstances of the case.

The resolutions to which I am to answer were not moved without a pretty copious display of the reasons on which they were founded. These reasons are before the public, through the channel of the press. They are of a nature to excite attention; to beget

alarm; to inspire doubts. Deductions of a very extraordinary complexion may, without forcing the sense, be drawn from them.

I feel it incumbent upon me to meet the suggestions which have been thrown out, with decision and explicitness. And while I hope I shall let fall nothing inconsistent with that cordial and unqualified respect which I feel for the House of Representatives; while I acquiesce in the sufficiency of the motives that induced on their part the giving a prompt and free course to the investigation proposed, I cannot but resolve to treat the subject with a freedom which is due to truth, and to the consciousness of a pure zeal for the public interest.

I begin with the last of the four resolutions, because it is that which seeks information relating to the most delicate and important of the suggestions that have been hazarded.

Here, however, I have to regret the utter impossibility of a strict compliance with the terms of the resolution. The practicability of such a compliance would suppose nothing less than that, since the last day of December, 1792, all the accounts of all the collectors of the customs and other officers of the revenue throughout the whole extent of the United States could be digested, made up, and forwarded to the Treasury; could be examined there, settled, and carried into the public books, under their proper heads; in a word, that all the accounts of the revenues, receipts, and expenditures of this extensive country would have passed through a complete exhibition, examination,

and adjustment within the short period of twenty-three days.

It was made (as I presume from the result) satisfactorily to appear to a committee of the House of Representatives, who were charged during the last session with framing a direction to the Treasury for bringing forward an annual account of receipts and expenditures, that the course of public business would not admit of the rendering of such an account in less than nine months after the expiration of each year; in conformity to which idea their report was formed and an order of the House established.

I need do nothing more to evince the impracticability of an exact compliance with the resolution in question, than to observe that it is even more comprehensive (though with less detail) than the order of the House to which I have alluded.

To evince, nevertheless, my readiness to do all in my power toward fulfilling the views of the House and throwing light upon the transactions of the Department, I shall now offer to their inspection sundry statements,[1] marked A, AB, B, C, D, E, F, which contain, as far as is at this time possible, the information desired, and with sufficient certainty and accuracy to afford satisfaction on the points of inquiry involved in the resolution.

The statement A shows in abstract the whole of the receipts into, and expenditures from, the Treasury, commencing with the first of January, and ending with the last of December, 1792, corresponding with

[1] For these statements in full, see *State Papers*, "Finance," vol. i., p. 188, *et seq.*

the accounts of the Treasurer. These accounts have been regularly settled up to the end of September, and copies have been laid before the two Houses of Congress. The account for the quarter terminating with the year has not yet passed through the forms of settlement, but is under examination, and will, no doubt, be settled as it stands; the manner of conducting the business, and the usual care and accuracy of the officer concerned, leaving very little room to apprehend misstatement or error. A copy of this account is herewith submitted, in the schedule marked C.

This statement takes up the balance of the general account of receipts and expenditures to the end of the year 1791, as reported to the House of Representatives within the first week of the present session, and continuing it down to the end of 1792, shows a balance then in the Treasury of seven hundred and eighty-three thousand four hundred and forty-four dollars and fifty-one cents.

The statement B is a more comprehensive document. It is a general account of INCOME and expenditure. It shows not merely the actual *receipts* of money into the Treasury, but the whole amount of the national revenues, from the commencement of the present Government, to the conclusion of the year 1792, as well *outstanding* as collected; the proceeds of domestic loans; the whole amount of the sums which have been drawn into the United States, on account of the foreign loans; and all other moneys, from whatever source, which have accrued within the period embraced by the statement.

These items form the debit side of the account,

amounting to seventeen millions eight hundred and seventy-nine thousand eight hundred and twenty-five dollars and thirty-three cents.

The credit side consists of two items: 1. The whole amount of the actual expenditures to the end of the year 1791, as stated in the general account of receipts and expenditures before referred to. 2. The whole amount of the actual expenditures during the year 1792, as specified generally in the statement A, and particularly in the several quarterly accounts of the Treasurer, amounting to twelve millions seven hundred and sixty-five thousand one hundred and twenty-eight dollars and eighty-three cents.

The balance of this account of income and expenditure is consequently five millions one hundred and fourteen thousand six hundred and ninety-six dollars and fifty cents; which corresponds with the excess of the public income (including the proceeds of loans, foreign and domestic) beyond the actual expenditure, or, more properly speaking, *disbursement*, to the end of the year 1792. This of course is exclusive of those parts of the proceeds of foreign loans which have been left in Europe, to be applied there; the amount, application, and balance of which are exhibited, as far as they are yet known at the Treasury, in the statement No. 1, of my late report on foreign loans.

This balance, as noted in the statement B, is composed of the following particulars:

| | |
|---|---|
| 1. Cash in the Treasury, per statement A. | $783,444 51 |
| 2. Cash in the Bank of the United States, and the offices of discount and deposit of New York and Baltimore, | |

| | | |
|---|---|---|
| not yet passed to the account of the Treasurer, per statement AB . . | 605,883 | 08 |
| 3. Proceeds of Amsterdam bills remaining in deposit in the Bank of North America, including the sum of one hundred and fifty-six thousand five hundred and ninety-five dollars and fifty-six cents, advanced by the bank, without interest, which is credited in the general account of receipts and expenditures, statement A . . | 177,998 | 80 |
| 4. Proceeds of Amsterdam bills sold, but not yet received . . . . | 614,593 | 02 |
| 5. Cash in hands of collectors of customs, per abstract D . . . . | 151,851 | 25 |
| 6. Bonds unpaid at the end of the year one thousand seven hundred and ninety-two, on account of the duties on imports and tonnage, and falling due between that time and May, one thousand seven hundred and ninety-four, per abstract E . . . | 2,442,069 | 15 |
| 7. Uncollected residue of duties on spirits distilled within the United States, per abstract F . . . . . | 341,057 | 19 |
| Making, together . . | $5,116,897 | 00 |

This aggregate somewhat exceeds the balance of the account, but in a case where estimates must necessarily supply the deficiency of ascertained results, differences of this nature are of course. It is at the same time satisfactory to observe that the estimates which have been heretofore communicated

are proved, by the official documents already received, to have been essentially correct.

It will no doubt readily occur to the House, that a very small part of the excess which has been stated is a real surplus of income. There remain to be satisfied numerous objects of expenditure, charged upon the fund by the appropriations which have been made, that cannot fail ultimately to exhaust it, probably within four or five hundred thousand dollars, which will be embraced in the appropriations for the service of the year one thousand seven hundred and ninety-three. A further explanation on this point is reserved for future communication.

A due comprehension of the statements now presented must obviate every idea of a balance unaccounted for, in whatever sense the allegation may have been intended to be made.

If there was before any obscurity on the subject, it was certainly not the fault of this Department. Till the last resolutions, no call has been made upon it which rendered it proper to exhibit a general view of the public moneys and funds, or to show the amount and situation of such as were unapplied. Particular calls for particular objects were made, which, as I conceive, were complied with; but they were not comprehensive enough to embrace a disclosure of that nature.

It could not therefore with propriety have been alleged that there was a balance unaccounted for; to infer it from documents which contained only a part of the necessary information was not justifiable. Nor could it otherwise happen, than that conclusions

wholly erroneous would be the consequences of taking such imperfect data for guides.

It may be of use, by way of elucidation, to point out some of the most palpable features of the error which has been entertained.

The following items are stated as the basis of the supposed deficiency:

| | |
|---|---|
| Residue of the proceeds of the foreign bills supposed to be unapplied (after deducting the sums furnished for St. Domingo, and the amount of the debt to the foreign officers) . . . . . | $1,668,190 |
| Surplus of sinking fund, meaning, I presume, that part of the surplus of the revenue to the end of the year 1790, which had not been applied in purchases . . . | 400,000 |
| Surplus of revenue of the year 1792, as reported . . . . . | 277,385 |
| | $2,345,575 |
| Deduct, in bank, meaning, I presume, the balance of the Treasurer's cash account . | 790,642 |
| Balance, not accounted for . | $1,554,933 |

It appears, in the first place, to have been overlooked that, in statement No. 3 of my late report concerning foreign loans, mention is made that on the 3d of January there remained *to be received* of the proceeds of the foreign bills six hundred and thirty-two thousand one hundred and thirty-two dollars and two cents; consequently, that sum could not be considered as in the Treasury, and ought to be deducted from the supposed deficiency.

Among the official papers, which it is intimated were consulted, was an original account, rendered by the Bank of the United States, of the sales of Amsterdam bills, showing a sum of six hundred and five thousand eight hundred and eighty-three dollars and eight cents, as having been received by the bank and two of its offices of discount and deposit, for the proceeds of those bills. Had the document been understood, it would have been known that this sum was in bank over and above the balance of the Treasurer's cash account; and this also would have served to account for a large part of the supposed deficiency—namely, six hundred and five thousand eight hundred and eighty-three dollars and eight cents. The course of this transaction will be hereafter explained.

But, among the misconceptions which have obtained, what relates to the surplus of revenue of the year 1792, is not the least striking. The *laws* inform (and consequently no information on that point from this Department could have been necessary) that credits are allowed upon the duties on imports, of four, six, nine, twelve months, and, in some cases, of two years. Reason dictates, that a *surplus*, in such case, must be considered as postponed in the collection or receipt, till all appropriations upon the fund have been first satisfied. The account of receipts and expenditures to the end of 1791, in possession of the House, shows that, at that time, no less a sum than one million eight hundred and twenty-eight thousand two hundred and eighty-nine dollars and twenty-eight cents of the antecedent duties were outstanding in bonds. How, then, could it have

happened that the surplus of 1792 was sought for in the Treasury *at the very instant of the expiration of the year?* I forbear to attempt to trace the source of a mistake so extraordinary!

Let me, however, add, that, of the surplus in question, one hundred and seventy-two thousand five hundred and eighty-four dollars and eighty-two cents are not payable till April and May, 1794, as will be seen by the abstract E.

Thus I have not only furnished a just and affirmative view of the real situation of the public account, but have likewise shown, I trust in a conspicuous manner, fallacies enough in the statement, from which the inference of an unaccounted-for balance is drawn, to evince that it is one tissue of error. In this I might have gone still further, there being scarcely a step of the whole process which is not liable to the imputation of misapprehension. But I wish not unnecessarily to weary the patience of the House.

Another circumstance, to which importance has been given, and which was noticed in connection with the suggestion last discussed, is a disagreement between a memorandum in the Treasurer's bank-book, and the statement reported by me of the amount of bills drawn at the Treasury upon the foreign fund. A disagreement no doubt exists, and to the extent of five millions seven hundred and sixty thousand one hundred and thirty-eight florins or guilders.

But the following circumstances contain the solution of this disquieting appearance.

There will be found in the statement A two several credits, each for two millions of dollars, as for mon-

eys received into the Treasury, with corresponding debits of equal sums, as for moneys paid out of the Treasury.

But neither the one nor the other did in reality take place. The whole is a mere operation, to accomplish the purposes of the eleventh section of the "act to incorporate the subscribers to the Bank of the United States," without an inconvenient and unnecessary displacement of funds.

That section authorizes a subscription to the stock of the bank, on account of the Government, not exceeding in amount two millions of dollars, and provides for the payment of it out of the moneys which should be borrowed by virtue of either of the acts of the 4th and 12th of August, 1790; the first making provision for the public debt, the last for reducing it; enjoining, at the same time, that a loan should be made of the bank to an equal amount, to replace the moneys which were to be applied to the payment of the subscription.

It is evident that nothing could have been more useless (at the same time that it would have been attended with obvious disadvantages to the Government), than *actually* to draw from Europe, out of the moneys borrowed there, the sum necessary for the payment of the subscription to the bank, and again to remit, out of the loan which was to be obtained of the bank, a sufficient sum to replace such moneys, or such part of them as may have been destined for the foreign object. Loss upon exchange, in consequence of overstocking the market with bills; loss in interest, by the delays incident to the operation; and which

would necessarily have suspended the useful employment of the funds for a considerable time: these are some of the disadvantages to the Government. To the bank alone could any benefit have accrued; which would have been in proportion to the delay in restoring or applying the fund to its primitive destination. Such an operation, therefore, could only have been justified by an indisposition on the part of the bank to facilitate the principal object, without the intervention of actual payment.

But no such disposition existed. On this, as on every other occasion, a temper liberal toward the Government has characterized the conduct of the directors of that institution.

It was accordingly proposed by me, and agreed to by them, that the object to be accomplished should be carried into effect by a merely formal arrangement. In this, however, it was necessary to consult the injunctions of law, and the principles of the constitution of the Treasury Department.

These points then were to be effected: a payment of the subscription money, to vest the Government with the property of the stock; possession of the means of paying it, which were to be derived from the foreign fund, and of course were first to be in the Treasury before payment could be made; the replacing what should be taken from that fund by a loan of the bank.

The following plan for these purposes was devised and executed by previous concert:

The Treasurer drew bills upon our commissioners in Amsterdam for the sums requisite to complete the

payment on account of the subscription. These bills were purchased by the bank, and warrants in favor of the Treasurer upon the bank served, to place the proceeds in the Treasury. Warrants afterward issued upon the Treasurer, in favor of the bank, for the amount of the subscription money, which was receipted for on the part of the bank as paid. Other warrants then issued in favor of the Treasurer upon the bank, for equal sums, as upon account of a loan to the Government, which warrants were satisfied by a re-delivery to the Treasurer of the bills that had been drawn upon the commissioners. In the last place, warrants were drawn upon the Treasurer to replace the moneys supposed by the arrangement to be drawn from the foreign fund, which perfected the operation. But, from the detail which has been given, it will be seen that, *in fact*, no moneys were either withdrawn from, or returned to, that fund. The bills were cancelled, annexed to the warrants, and are lodged in the Treasury as vouchers of the transaction.

These bills were for two separate sums, each two millions four hundred and seventy-five thousand guilders, equal to a million of dollars; the payment having been divided into two parts, upon certain equitable considerations, relative to the dividend of the first half year.

This transaction explains four millions nine hundred and fifty thousand guilders of the sum which forms the disagreement between the memorandum in the Treasurer's bank-book and the statement reported by me.

The residue is thus explained: The sum of one

million two hundred and thirty-seven thousand five hundred guilders, directed to be drawn for, on the thirtieth of November, was directed to be comprised in one or more bills, as the bank should desire. It was at first placed in one bill, but this bill was afterward returned, with a request that it might be converted into smaller sums. The bill returned was cancelled, and, in lieu of it, there had been furnished, prior to the 1st of January, of the present year, nine hundred and thirty-four thousand five hundred guilders; the balance, three hundred and three thousand, then remaining to be furnished. The sum of nine hundred and thirty-four thousand five hundred guilders, consequently, appears twice in the memorandum.

These two sums, of four millions five hundred and ninety thousand, and nine hundred and thirty-four thousand guilders, exceed the difference in question, by one hundred and twenty-four thousand three hundred and sixty-two guilders.

The Treasurer informs me, that there are two bills not included in the memorandum: one for one hundred and twenty-three thousand seven hundred and fifty, and the other for six hundred and twelve guilders; which make up the above-mentioned excess. The former of these two bills was furnished to the Secretary of State for the purpose contemplated by the third section of the act of the last session, entitled "An act making certain appropriations therein specified."

Is it not truly matter of regret that so formal an explanation, on such a point, should have been made

requisite? Could no personal inquiry, of either of the officers concerned, have superseded the necessity of publicly calling the attention of the House of Representatives to an appearance, in truth, so little significant? Was it seriously supposable that there could be any real difficulty in explaining that appearance, when the very disclosure of it proceeded from a voluntary act of the head of this Department?

With perfect respect,

I have the honor to be, sir,

Your most obedient and most humble servant,

ALEXANDER HAMILTON,

*Secretary of the Treasury.*

The Hon. Jonathan Trumbull, Esq.,

*Speaker of the House of Representatives.*

P. S.—Another statement of income and expenditure having been made, which presents the subject under another aspect, but agreeing in the result with the statement B is marked B a.[1]

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## LOANS

Communicated to the Senate, February 6, 1793.

TREASURY DEPARTMENT, February 5, 1793.

SIR:

In pursuance of the first part of the order of the Senate, of the 23d of January past, I have the honor to send, herewith, sundry statements, marked A, AB, B, Ba, D, E, F,[2] and I beg the permission of the

[1] For these schedules see *State Papers*, "Finance," vol. i., p. 196.

[2] For these statements, see *State Papers*, "Finance," vol. i., pp. 187–190; 195–200.

Senate to add the copy of a letter dated yesterday, which served to transmit duplicates of the same documents to the House of Representatives, and which contains some explanations of them, a repetition of which, here, will be, thereby, rendered unnecessary. The document C, referred to in that letter, was also sent to the House of Representatives, but being of considerable length a duplicate is not yet ready, and I did not think it advisable to detain the other papers till it was ready.

The documents, now transmitted, will answer the whole of the inquiry contained in the first part of the order above referred to, except what regards a distribution of the expenditures, under each head of appropriation, which is in preparation, and will be forwarded as soon as it can be ready.

The situation in which I am placed renders further delay absolutely necessary to the fulfilment of the second part of the order.

There is a point in my letter of the 16th of January to the Senate, concerning which some explanation is requisite. I stated, as one motive to the joint negotiation of the loans, under both acts, "an intimation from our bankers in Holland, that a distinction might prove an embarrassment, being a novelty, the reason of which would not be obvious to the money-lenders." This was done from memory, without recurrence to documents, and in a degree of hurry occasioned by my anxiety for the speedy passing of the appropriation bill, and upon a revision, proves to be not accurate. The mistake arose in the following manner. My original idea was, to maintain a separation be-

tween the two acts. This will appear from my letter of the 28th of August, 1790, to our bankers, in which I express a desire that they would endeavor to place part of the first loan upon one act, and another part upon the other act. But they did not carry this idea into execution, for the reason assigned in their answer, now before the Senate; which is, that the subdivision proposed would, under the circumstances of the case, tend to excite speculations and doubts among the money-lenders.

But, prior to the receipt of their answer, I had made further inquiry, and had reflected more on the subject. The result of my inquiry was that the money-lenders, having been accustomed to lend on the general credit of the Government borrowing, with a sort of general pledge of its revenues and resources, the attempt to bottom a loan upon any particular law might, as a novelty, occasion some hesitation and embarrassment among them; especially as they are known to be a description of men much influenced by habit and precedent; and the conclusions, from more full reflection, were that the distinguishing of the loans with reference to each act might not only embarrass the business in the first stages of negotiation, but might interfere with an application of the proceeds of the loans in the most convenient and beneficial manner, according to circumstances.

On these considerations I abandoned my original intention, and in my first instruction to Mr. Short, was silent on the point.

These different positions of the subject in the mind, at different times, and what actually took

place, with regard to the first loan, produced some confusion in the recollection of facts, and led me to assign as a cause what had been only a collateral circumstance, and to ascribe to the bankers intimations, or rather information, which I had received from other quarters.

I submit this explanation of the matter to the candor of the Senate, and have the honor to be with perfect respect,

Sir, your most obedient servant,

ALEXANDER HAMILTON.

The Vice-President of the United States and
President of the Senate.

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Communicated to the Senate, February 6, 1793.

TREASURY DEPARTMENT, February 5, 1793.

SIR:

By order of the President of the United States, I have the honor to transmit herewith:

1. Copies of a power given by him to the Secretary of the Treasury for the time being, dated the 28th of August, 1790, for the negotiation of the loans authorized by the laws of the 4th and 12th of August, 1790, and of certain instructions relative thereto, dated on the same day.

2. Copies of an authority, founded upon the power of the President, from me to William Short, Esquire, dated the 1st of September, 1790, and of sundry letters from me to the said William Short, of dates from the 29th of May, 1790, to the 31st of December, 1792,

inclusively, relating to the negotiation and application of the above-mentioned loans.

3. Originals of sundry letters from William Short to me, under dates from the 2d of December, 1790, to the 2d of November, 1792, inclusively, relating to the same subject.

4. Copy of an authority from me to Messrs. Wilhem and John Willink, Nicholaas and J. Van Staphorst and Hubbard, bankers of the United States at Amsterdam, dated the 28th of August, 1790, relating to the first of the loans made under the above-mentioned acts, and copies of sundry letters to the said bankers, of dates from the 28th of August, 1790, to the 31st of December, 1792, inclusively.

5. Originals of sundry letters from the said bankers to me, of dates from the 25th of January, 1790, to the 5th of November, 1792.

6. Copies of sundry letters of dates from the 18th of June to the 24th of September, 1792, inclusively, between G. Morris and W. Short, Esquires, having relation to the above subjects.

The general power from the President to the Secretary of the Treasury, of the 28th of August, 1790, and the communications from William Short, Esquire, who has been the only commissioner, would, it is presumed, have fulfilled the terms of the resolution of the Senate of the 23d of last month, and are transmitted, pursuant to the request contained in that resolution.

But the President has been pleased to direct the transmission of the other documents also, in the supposition that they will serve to throw light upon the general subject of that resolution.

With perfect respect, I have the honor to be sir, yours, etc.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*

The Vice-President of the United States and
President of the Senate.

[NOTE.—Of the papers referred to in this report, none are now to be found, except those published with the Secretary's *second* report, of the 13th of February, 1793, which follows.]

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## LOANS

Communicated to the House of Representatives, February 13, 1793.

SIR:

The next most important article of inquiry involved in the resolutions of the House of Representatives of the 23d of January last, and in the observations which have been made respecting the conduct of this Department, relates to the loans negotiated under the acts of the 4th and 12th of August, one thousand seven hundred and ninety.

The papers which have been transmitted to the House by order of the President disclose the following particulars:

1. That the immediate superintendence of the business of the loans was confided to the Department of the Treasury, being naturally connected with it. This trust, besides the original instructions for regulating the execution of it, which have been communicated, was of course subject to such directions, from time to time, as the President should think fit to

give, or as occasions should require. A considerable latitude of discretion, nevertheless, from the very nature of the case, attended it, so as justly to leave, on the head of this Department, a complete responsibility in all instances where special exceptions do not appear.

2. That the first loan which was obtained was undertaken and completed by the agency of Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard, who, both under the former and present Government, have been, and are, the bankers of the United States, at Amsterdam.

3. That, with the single exception of the first loan, William Short, Esq., then Chargé des Affaires at the court of France, now Resident Minister at the Hague, was constituted the sole agent of this Department for carrying into effect the powers confided to it; with this qualification only, that, if any negotiation with a prince or state, to whom any part of the debt to be discharged by the loans was due, should be requisite, the same was to be carried on through the person who, in capacity of Minister, Chargé des Affaires, or otherwise, then was, or thereafter might be, charged with transacting the affairs of the United States with such prince or state.

4. That all payments, which have been made out of the proceeds of the loans, have been made by the immediate and special order of Mr. Short, except those upon the bills of the Treasurer for the moneys drawn to this country, and those to the money-lenders in Holland, which were made in course by our bankers, at the periods they respectively became due.

This consequently embraces all the payments to France; the very last of which, though agreed for by Mr. Morris, in consequence of his having been employed for a special purpose by Mr. Short, was not, and could not, be completed, but by the same *immediate* and *special* direction of Mr. Short.

It moreover appears, from the same papers, and more fully from the correspondence at large, now before the Senate, that, except in the particular instance which has been just stated, with regard to Mr. Morris, there has been no other agency in the whole business than that of Mr. Short, and of the bankers at Amsterdam and Antwerp, whom he necessarily employed as instruments in the negotiations with the money-lenders, and in the receipt and disbursement of the moneys borrowed. These, as already mentioned, were, at Amsterdam, the two houses of Wilhem and Jan Willink, and of Nicholaas and Jacob Van Staphorst and Hubbard; at Antwerp, a Mr. G. De Wolf was the banker.

It may not be without its uses to add, that the moneys proceeding from the loans have constantly remained in the hands of the respective bankers, till they have been paid over to the creditors; namely, the French treasury or their bankers, the money-lenders or their representatives, the holders of the bills drawn from this country by the Treasurer. Neither Mr. Short nor Mr. Morris has ever had possession of a single guilder. The latter, indeed, has never had power over *one*, excepting merely a sum of 105,000 guilders, by letter of mine, dated the 13th of September last, placed at his disposal for paying, *at*

*Paris*, according to stipulation, the interest on the debt due to foreign officers. The fact is, and it is so demonstrated by the correspondence already referred to, that I never wrote a line to Mr. Morris on the subject of the loans or their proceeds, but in reference to the case just mentioned, of the interest payable to foreign officers, in respect to which, local situation governed.

One more circumstance only is necessary to be noticed in this place, with a view to the elucidation intended. It is this: that the last payment, though originating prior to the change in the political position of France, of the 10th of August last, not having been consummated till the 6th of September following, fell, of course, under the disposition of those then in possession of the power of the nation.

It could not but have been unexpected to me, that exception should be taken to the report lately made by me on the subject of foreign loans, for the omission of details which I did not, at the time, and do not yet conceive to have been called for, by the terms of the resolutions upon which it was founded. The request addressed to the President, by those resolutions, was, that he would cause to be laid before the House a particular account of the *sums borrowed*, *under his authority*, by the United States; the *terms* on which each loan was obtained; the *applications* which had been made *of the moneys*, agreeably to appropriations; the balances, if any, which remained unapplied; specifying, also, at what *times interest commenced* on the several sums obtained, and at what *times it was stopped* by the several payments made.

It was not natural to imagine that these expressions were designed to comprehend a specification of the *precise authorities* under which the loans were negotiated, of the *names* of the *persons* by whom they were negotiated, of the particular *place* or *places* where the balances unexpended of the sums that had been drawn for to the United States were *deposited*. Still less natural was it for me to anticipate surmises, which could give to such particulars the shadow of importance. But, as animadversions have attended the omission of those details, I ought to regard it as an admonition to me to be more full and precise in my present communication—a motive which co-operates with my desire to throw all possible light upon the subject.

The first general circumstance which requires to be noticed and explained, after the particulars that have been communicated, is this: that all the loans which have been hitherto obtained have been made under the authority of both acts, without particular reference to either.

The idea originally entertained was to conduct them on a different plan, founding each loan upon one or the other of the acts, as will be seen by my letter of the 28th of August, 1790, to our bankers at Amsterdam; at the same time that it will appear, from the same letter, that the separation did not appear to me a matter of consequence, and that I anticipated the possibility of a difficulty in adhering to it in the particular case. That difficulty proved, in the opinion of the bankers, to be of sufficient moment to render the arrangement contemplated, under the circum-

stances of the case, unadvisable, as they inform me in their answer to the above-mentioned letter.

But, prior to the receipt of that answer, further inquiry and reflection had determined me to abandon my original idea, as likely to produce embarrassment and inconvenience, both in the negotiation of the loans and in the application of their proceeds. It was accordingly concluded to let the loans proceed indiscriminately, upon both acts.

These loans were to have reference to two purposes: first, the reimbursement of the foreign debt; second, the purchase of the domestic debt at its market price.

There were weighty reasons for carrying on both these operations concurrently. The arrears to France had been a considerable time accumulating. It was, in every sense, proper that a reimbursement of them should begin without delay, and desirable, for obvious reasons, that it should go on without any very considerable chasms or intermissions. This manner of proceeding could not but have the fairest chance of being the most satisfactory and convenient to France; unless, indeed, the business were to have proceeded upon the principle of an entire postponement of the domestic object to that of the reimbursement.

But very cogent reasons rendered this course not the most eligible; the early commencement of purchases of the debt was a matter of real and great importance.

It was important in two relations: as it regarded the advantages to the Government, from redeeming a

portion of the debt at low prices; and still more, as it regarded the savings to the country from raising the price of stock on foreign purchasers; the beneficial influence upon the credit of the nation, abroad and at home, to be expected from a quick appreciation of the public obligations; the benefit to the public creditors in general, and to the most meritorious classes of them in particular, which would result from the same cause; all which objects were suggested from the Treasury, as motives to the provision respecting purchases, and are evidently contemplated in the preamble of the act which makes that provision.

Exclusive of the other advantages which have been cited, and which are of a nature truly precious and important, that of preventing foreigners from acquiring the property of our citizens, at a great undervalue, is too obvious not to be estimated, as it ought to be, at first sight. It cannot require argument to show how great an evil it was, that foreigners should be able to acquire, with nine or ten, that for which the country would ultimately have to pay them twenty, with full interest in the interval; nor how much it merited the attention of the Government to prevent or lessen so serious an evil.

But the influence which the purchases by the Government may have had upon this event may not be equally obvious. It is, however, not difficult to be traced. Price naturally keeps pace with competition and demand; whatever increases the latter necessarily tends to an augmentation of the former. Merely, then, as another purchaser, by adding to the

competition and demand, the purchases of the Government were calculated to influence a rise of price. But they had an effect more than proportioned to their real extent. Imagination has much to do in all such questions, and in scarcely any thing so much as in what relates to public funds. Experience proves that it is here exerted with uncommon effect. The appearance of the Government, as a purchaser, has not failed to excite the expectation of a greater demand than was real, because the extent of the resources to be employed might be very great, and was unknown; which, by stimulating the zeal of those who wanted to buy, lest the price should rise suddenly and considerably upon them, and by encouraging those who wanted to sell, under the hope of a better price, to hold back the commodity, has, in both ways, generally contributed to give a spring to the market. Prices once raised, when founded on intrinsic value, tend to maintain themselves; because those who have given them are, for the most part, interested in keeping them up; and every new impulse which they receive serves to carry them rapidly to their just level.

Those who have been most attentive to the operation of the public purchases will have the least doubt that they had a material agency in accelerating the appreciation of the public stock.

An inquiry naturally arises here: Were the moneys which were drawn from Europe, on account of the foreign loans, the instrument of the purchases to which these beneficial effects are ascribed?

I answer, that these purchases are to be attributed

to the instrumentality of that fund; that, had it not been for this resource, they could not have been made at the early periods when most of them were made. The course of the transaction will be fully, and with more propriety, explained in another place.

An attention to both objects—to the reimbursements to France, and to the purchases of the debt, rendered expedient a submission even of the first loan. Considerations of the moment seconded those of a general nature, to induce an immediate payment to that country. The loan had been undertaken without previous authority from hence, with a view to such payment; this was known, and a correspondent expectation excited. The immediate situation of the French finances rendered a payment, at the particular juncture, more than ordinarily interesting. In such a state of things, there could be no hesitation about applying a large part of the loan to that object. Another part of it was, of necessity, applied to the payment of the sums that were falling due on the Dutch loans; and it is presumed that the reasons which have been assigned will appear to have been sufficiently powerful to have dictated the drawing of a part of it to the United States.

Accordingly, a million and a half of the three millions borrowed were appropriated to France; something more than eight hundred thousand guilders were drawn for here, and the remainder of the loan was left to be disbursed in Holland.

It shall not be concealed, though I am aware that the acknowledgment may be a subject of criticism, that the conduct which was pursued, both with re-

gard to this and to the succeeding loan, was, in some degree, influenced by a collateral consideration. The Government had but just adopted a plan for the restoration of public credit. The periodical payment of interest was to commence on the 1st of April, 1791. A considerable part of the revenue, out of which the moneys were to arise, was only to begin to accrue on the 1st of January preceding. This revenue was liable to credits of four, six, and twelve months.

How far its eventual product would answer expectation; how far the punctuality of payments could be relied upon, were points unascertained, and which required, to their ascertainment, much more experience than had been obtained. In such a situation it was not only natural, but necessary, for an administrator of the finances to doubt; and, doubting, it was his duty to call to the aid of the public credit every auxiliary which it was in his power to command. He was bound to reflect, that a failure in any stipulated payment would be fatal to the dawning credit of the country; to the reputation of the Government, just beginning to rise. That a wound inflicted upon either, at so early a stage, under all the circumstances of opposition to the Constitution, which had existed in the community, would have been deeply felt, and might either not have admitted of a cure at all, or not till after a length of time, and a series of mischiefs; that it could not but be an important service rendered to the country to ward off so great a misfortune by the temporary use of any extraordinary resource which might be at hand, till time was given for more effectual provision.

If, in the course of such reflections, a doubt had occurred about the strict regularity of what was contemplated as a possible resort, a mind sufficiently alive to the public interest, and sufficiently firm in the pursuit of it, would have dismissed that doubt, as an obstacle, suggested by a pusillanimous caution, to the exercise of those higher motives which ought ever to govern a man invested with a great public trust. It would have occurred that there was reasonable ground to rely, that the necessity of the case, and the magnitude of the occasion, would insure a justification, and that, if the contrary should happen, there remained still the consolation of having sacrificed personal interest and tranquillity, no matter to what extent, to an important public interest, and of having avoided the humiliation which would have been justly due to an opposite and to a feeble conduct.

The disposition which was resolved upon with regard to the first loan involved, necessarily, a decision of the point, that the loans might be placed on the joint foundation of both acts. That loan having been undertaken, as already mentioned, without previous authority, and, consequently, without a particular eye to either act, it was probable that it would be found too late to make an apportionment of one part of the sum borrowed to one act, of another part to the other act. In that case, the distributive application of the fund to the different objects was to be relinquished, or the possibility was to be admitted of the loan being left to stand upon the authority of both acts. The same disposition of the first loan will also illustrate the convenience and expediency of the plan

which was finally adopted—that is, of placing the loans on the basis of both acts.

The idea of a concurrent execution of both the objects to which the loans were destined could not, conveniently, have been pursued upon the plan of a separation of the loans, which, to be effectual, would include the strict application of the proceeds of each to the purposes of the particular act upon which it was founded.

Amsterdam was naturally looked to as the great scene of the intended loans. There, as everywhere else, there is but a certain quantity of money floating in the market, from time to time, beyond the necessary demands of trade and industry, seeking for employment in loans. This quantity, of course, varies at different periods, from a variety of causes. Of the quantity at any time afloat, but a certain portion can be commanded by any one borrowing power, owing to the competition of other borrowers, who have, each, their connections, through their bankers, with different sets of undertakers and money-lenders. Nor is it always that considerable loans can be had, at any rate. There are certain seasons only, when they are practicable.

To have brought two loans upon the market at one time, as an opportunity of borrowing offered, which must have been the case in order to make concurrent provision for both the objects in question, if the principle of a separation of the loans had been adopted, would have been to exhibit to the money-lenders a very unusual appearance. With men known to be much influenced by precedent and habit, such an

appearance could not have failed to prove a source of speculation and conjecture, and might have led to a confused idea that the wants of the United States were excessive—a supposition by no means calculated to promote their credit. It would, moreover, have been a departure from that simplicity of procedure which, where numbers are concerned, is always of moment to a right conception of the business to be accomplished, and ought not to be abandoned but for reasons of real utility and weight.

To have instituted the loans successively, founding each upon one or the other of the acts, would have had a tendency to occasion longer intervals between the payments to France than was desirable. The intervention of a loan for the purpose of purchases would have created, of course, a very considerable chasm. It may be objected, that such chasms did happen on the plan which was pursued. This is true, in two instances; but the most material of the two proceeded from casualties foreign to the plan itself, which are detailed in the correspondence more than once alluded to.

It is possible, too, that a separation of the loans might have rendered it less easy to take advantage of a state of the market favorable to their extension at a particular juncture. The loan to be brought on the market might relate to the purchase of the debt. The moment might be favorable to a more considerable loan than was within the limits prescribed for that object, and the opportunity might slip before a second could be instituted. In this business, moments are often of importance,

and are to be embraced with promptitude and dexterity.

Thus, it appears that in different ways the negotiation of the loans might be embarrassed by their separation.

But the most obvious, if not the most serious, of the inconveniences which would have attended it, respects the application of the sums borrowed. This could not, then, have been moulded as the interest or policy of the Government might dictate. A loan for the purchase of the debt might have been made, under prospects promising a ready and beneficial investment of it; but, before the investment was made, a change of the market might render it ineligible, involving the alternative, either of a disadvantageous investment, or of leaving, perhaps, a large sum of money a long time unemployed. Such a state of things might have produced, to the banks, an advantage, and, to the Government, a loss, of magnitude sufficient to give color to a surmise that the public interest had been sacrificed to the profit of those institutions. The contrary course has essentially avoided that evil, which, in this and in other instances, would have been incident, in a far greater degree, to the modes of proceeding, contrasted with those that have been pursued, than has, in reality, attended them.

Or, political considerations might have rendered it advisable to transfer the application of the fund from one object to the other.

Of this, the case of St. Domingo presents an example. It might have happened, on the plan of

separate loans, that there was no fund in hand but for the purchase of the debt. Then, on the principle of that plan, there would have been no fund in the disposition of the Executive, applicable to the other object, which would have embarrassed the performance of a duty toward a friendly Power, and, in a way which included the positive advantage to the country, of paying, directly, a part of its foreign debt in its own productions.

Such were the embarrassments avoided, and such the conveniences secured, by the plan of making the loans indiscriminately, upon the authority of both acts.

In the opposite plan, I can discern no counterbalancing advantage nor convenience.

Consequently, if both are equally legal, there can be no doubt which of them ought to have been preferred.

If there be any want of legality in the plan which has been pursued, I was not, at the time, and am not yet, sensible of it.

I know of no rule which renders it illegal in an agent, having, from the same principal, two authorities to borrow money, whether for one, or different purposes, to unite the loans he may make, upon the foundation of both authorities, provided the terms of them be consistent with both or either of his commissions. If the purposes are different, it will be incumbent upon him to take care that the application of the moneys borrowed makes the proper separation, and, doing this, he will have fulfilled his trust. To test this position, it seems only necessary

to ask: Whether the principal, in such case, would not be fully bound to the lenders?

In reflecting, originally, upon the regularity of the proceeding meditated, there was but one source of hesitation—the difference in the funds upon which the loans were to rest. But the following reasoning satisfied the scruple. The pledging of particular funds is for the security of the lenders. If they are willing to waive the special security, by lending on the general credit of the Government, or to dispense with the preference of one fund to another, where two are pledged, by lending indiscriminately on the credit of both, the one or the other circumstance must be alike indifferent to the Government. The authority will have been well executed, to the extent necessary for public purposes, and if anything remains unexecuted, it will be in enlargement, not in abridgment, of the public rights. It is, however, presumed, that the practical construction, in the present case, will be, that the two funds pledged will constitute an aggregate for the joint security of the moneys borrowed upon both acts.

The second general circumstance respecting the foreign loans, negotiated under the acts of the 4th and 12th of August, which requires attention, relates to the terms on which they have been obtained. These, it appears, have been represented as neither honorable nor advantageous.

The following facts, witnessed by the correspondence before the Senate, more than once referred to, and well known to all who have had opportunities of information, demonstrate that the terms of

those loans have been both honorable and advantageous.

1. There is not one of them, which originated under these acts, that was not effected upon conditions equally favorable with those attending the loans of the contemporary borrowing Powers of the most tried resources and best-established credit, and more favorable than were obtained by some Powers of great respectability.

2. The United States took a lead in the market, in regard to the subsequent reductions of interest, having had either earlier or more complete success than any other borrowing Power.

3. From a rate of five-per-cent. interest, and 4½-per-cent. charges, which marked the level of the market when they began their loans, they, in the course of a single year, brought down the terms to four-per-cent. interest, and five-per-cent. charges; that is, from an interest on the net sum received (including an indemnification for charges) of 5.5012, something more than 5½ per cent., to an interest on the like sum of 4.4951, something less than 4½ per cent.

When this state of things is applied to a Government only in the third year of its existence, and to a country which had so recently emerged from a total derangement of its finances, it would seem impossible to deny that the issue is not only honorable but flattering—unless, indeed, it can be denied, that a sound and vigorous state of credit is honorable to a nation.

I forbear a comparison between the loans of the present and of the former Government of this

country, because an immense disparity of circumstances would render it an improper one,—further than to take notice of a very great error which has been on some occasions advanced. It has been alleged, to disparage the management under the present, that the loans of the former Government, in a situation comparatively very disadvantageous, have been effected upon equal terms; and, in proof of this, an appeal has been made to the loan of 2,000,000 of guilders, at four per cent., which is that of the 9th of March, 1784.

Nothing can manifest more clearly than this the very precipitate and superficial views with which suggestions on important public subjects are sometimes made. The last four-per-cent. loan obtained under the existing laws, including charges, is a real 4½-per-cent. loan, or, more exactly, a 4.4951-per-cent. loan. The four-per-cent. loan of March, 1784, is a real 6.6468-per-cent. loan. The difference, which exceeds two per cent., arises principally from extra premiums and gratifications which were allowed upon this loan, and which are unknown to the other.

Much praise is, no doubt, due to the exertions which effected the loans under the former Government. A superiority of merit shall readily be conceded to them from the circumstances under which they were made, and their signal utility in the Revolution. But it is not necessary to their eulogium to affirm that they were made upon equal terms with those of the loans lately obtained, or to deny the goodness of the terms of the latter. Truth will not justify the one or the other.

The facts which have been stated prove that the terms of the loans are advantageous as well as honorable. They are comparatively advantageous, because they are as moderate as other Powers, in the best credit, have allowed; and they are absolutely advantageous, because the highest *real*, not *nominal*, rate of interest which has been given does not exceed 5.5012—a fraction more than 5½ per cent.; while the lowest *real* rate is 4.4951—a fraction less than 4½ per cent.

If the question, whether advantageous or not, be tested by the purposes for which the loans have been made, the conclusion is equally in their favor. The payments on account of the foreign debt were an indispensable obligation. Unless it can be shown that they might have been derived from another and more advantageous source, it will follow that it was the interest of the Government to avail itself of the resource which has been employed, because it was its duty to discharge its obligations.

It is sometimes urged that foreign loans, for whatever purpose, are pernicious, because they serve to drain the country of its specie for the payment of interest, and for the final reimbursement of principal; that it would be preferable for that reason to procure loans at home, even at a higher rate of interest.

To this several answers may be given, some of a special, others of a general nature.

In reference to the reimbursement of the foreign debt it may be observed, that, as a debt had already been incurred abroad, upon which interest was payable, the contracting of new loans there for the

reimbursement of that debt would leave us, as to the demand for the exportation of our specie, just where we originally stood.

Moreover, if the money could have been borrowed at home for that reimbursement, the remittance of it would have been ruinous to the country. The mere necessity of remitting could not alone have increased the foreign demand for our commodities, so as to deduce from an extra exportation of them the requisite means of payment; and, if our specie was to perform the office, the country would speedily have been exhausted to a degree inconsistent with the support of its commerce and industry. The quantity of coin in the United States has never been considerable enough for such an operation.

But this very state of things would have rendered the procuring of the money, from domestic resources, impracticable. These, it may be safely affirmed, are too limited for extensive loans, of any considerable degree of permanency.

In the last place: The expedient of domestic loans would not prevent the evil which is desired to be prevented. Foreigners would either, in the first instance, bring their moneys to subscribe them to the loans, or they would afterwards purchase the stock arising from them; and, in either case, they would equally draw away the money of the country on account of their interest and principal. The only consequence of giving a disproportionate rate of interest for domestic loans would be, that our specie would be carried away so much the faster.

Experience having shown that nations sometimes

pay more regard to their external than to their internal credit, this consideration co-operates with reasons of convenience, to induce moneyed men abroad to be content with a lower rate of interest, stipulated to be paid in their own country, than if the place of payment be in another country, making even a greater difference than is an equivalent for the expense and risk of obtaining remittances.

The clear inference from these observations is, that, with regard to the reimbursement of the foreign debt, no other expedient than that of foreign loans was practicable or eligible.

The utility of that part of the loans which has reference to the purchase of the debt has already been explained in certain views. So far as their agency has been, hitherto, concerned in that operation, it is a sufficient demonstration of the advantage of the measure to state, that the sum invested in purchases, up to the period of the last report to Congress, has redeemed what is equal to an annuity of 6.15 per cent., including, also, the advantage of sinking a capital more than fifty per cent. greater than the sum expended.

A valuable profit will arise from the investment of the sums on hand, either in a payment to the bank or in the purchase of stock. The liberation of an annuity of six per cent. can be secured, while, upon a great part of the fund which is to effect it, no more than 4½ per cent. is payable, and less than 5½ upon the other part. The mean of these rates being five per cent., an annual saving of one per cent. may be effected, which, upon 2,000,000 of dollars, interest at

five per cent., is equal to a capital or gross sum of 400,000 dollars—an item certainly of no inconsiderable consequence.

Against the advantages which are claimed in favor of the loans, it is natural to place the loss of interest incident to the delays which have attended their application to the purposes for which they were obtained. This leads to an examination of the cases of delay, their causes, and the circumstances, if any, which counterbalance them.

There are three instances of material delay: one respecting the first loan, another the second loan, and a third a part of the two last loans.

The first loan, it will be seen, was not applied till a considerable time after its commencement. It has been already intimated, that it was undertaken without previous authority from this country. The motives to the measure are detailed in a letter from our bankers, of the 25th of January, 1790, a copy of which accompanies the communications herewith made by order of the President. A regard to those motives led to an acceptance of the loan. Nor could it have been deemed an unfortunate circumstance, that such an auxiliary to the operations of the Treasury had been previously prepared.

The laws authorizing the loans passed the 4th and 12th of August. As early as the 28th of that month, the acceptance above mentioned was communicated, and the application of 1,500,000 florins, in a payment to France, directed. So far, no time was lost, more than could not have been avoided.

But the bills for the sum to be brought here were

not drawn till some months after. This proceeded from an unwillingness to risk the public credit by drawing before there was a certainty of funds to answer the drafts. It was not impossible that the great delay which had attended the passing of the law for borrowing, might have led the bankers to come to some arrangement with the money-lenders for surrendering the moneys paid in, and terminating the loan. Independent of this source of apprehension, they had expressed themselves, in their letter communicating the step they had taken, to this effect: "To spare the United States all possible advance of interest, while the money shall remain unappropriated, we shall issue the recipisses at the option of the buyers to take them *so late as they please*, on the expectation the three millions would be placed in a few months." This, though it announced an expectation that the moneys would be paid in, in a few months, did not render the event certain. And as the bankers appeared, from that precaution, to have adverted to the idea of saving the United States an advance of interest, it was supposable that they might have found means still further to procrastinate the payments, or a considerable part of them, till they had received a confirmation of the loan. This policy would have been the more natural, as they risked the loss of interest themselves, if the transaction should not have been finally ratified.

Under such circumstances, I thought it most prudent to defer the drafts till advice was received of the actual progress of the loans. There was no room to hesitate between the loss of a small sum in interest

and the danger of committing the public credit by a permature operation.

The second case of delay relates to the second loan. It was occasioned by a determination to suspend the orders for its application till information was received of its having been contracted for.

One motive to this determination has been already intimated—namely, the yet untried and immature state of our fiscal arrangements. The general reasoning on this head was strengthened by an occurrence altogether unlooked for, which disclosed itself on the 23d of August, 1790, eleven days after the rising of Congress—an occurrence which they had not contemplated in their pecuniary dispositions. I allude to the commencement of an Indian war, which was announced in a letter from Governor St. Clair, dated on the above-mentioned day, the progressive extent and consequences of which could, of course, not be foreseen. Under such circumstances, I judged it for the public interest and safety to hold the resource which the prospect of a loan presented under the power of the Treasury till advice should be received of the actual institution of the loan, with intention then to dispose of it as should appear advisable under a better-matured view of our pecuniary situation and prospects.

Hence the delay which attended the application of the second loan; the first, in fact, that originated subsequent to the laws for borrowing. But after advice had been received of its having been set on foot, no time was lost in converting it with due despatch to its proper uses. There was only not an

anticipation of its application. As early as May 24th, 1791, I wrote a letter to Mr. Short (a copy of which is in the possession of the House), empowering him to apply the proceeds of all future loans, as they should accrue, in payments to France, except as to such sums as therein were, or afterward should be, *previously* and *specially* reserved. This arrangement was calculated to obviate the inconvenience of leaving the proceeds of the loans for any considerable time unemployed. At the period of making it, and not sooner, the public prospects appeared to me sufficiently unfolded to render a general and permanent disposition free from hazard. This instruction preceded, in due season, all the loans subsequent to that of March, 1791.

Whatever delay, therefore, may have attended succeeding investments for paying the French debt, is not attributable to this Department; and I think it will not appear that any has been incurred in respect to the sums which were destined for the public service here. In judging of this point, it will be proper to observe that a latitude of six months for making their payments has been reserved to the money-lenders, though with liberty to make them earlier. It was, however, necessary for the Treasury to regulate its bills according to the possible delay, lest they should not meet adequate funds. The general policy adopted was to let them fall upon the rear of each loan, this giving a freer course for early payments to France, and best conciliating a certainty of funds for answering the bills with as little double interest as possible.

It will appear that, notwithstanding the arrangement which was made, a considerable time intervened between the two last payments to France, while there were funds in hand waiting for employment. It may be expected that the causes of this procrastination, though, as I have said, not imputable to this Department, should be unfolded to the House. Particular circumstances, however, induce me to confine myself to stating generally that the delay proceeded, in the first place, from an expectation given to Mr. Short, and kept up, from time to time, by the French Minister of Marine, that a plan would be adopted, to which a decree of the National Assembly was requisite, for converting a large sum into supplies for St. Domingo; which Mr. Short concluded justly must come out of the foreign fund, and consequently suspended its application in Europe. In the second place, from a desire to settle, previously to further payments, a definite rule, by which the moneys paid should be liquidated and credited to the United States.

Both the one and the other appear to have been procrastinated from period to period, by the disordered state of French affairs, and to have finally issued contrary to expectation. It would be an unnecessary commitment of my opinion to declare how far the delay appears to me to have been justified by the causes; but, being led by the occasion to take notice of it, I think it improper to send it abroad, liable, perhaps, to misconstruction, without observing that the inducements appear to me to have been weighty; that the delays naturally grew out of the circumstances; and that I am entirely pursuaded of

the goodness of the motives which governed. The correspondence before the Senate contains the particulars of the transaction.

Having pointed out the instances of material delay which happened, and the causes of them, it remains to state what circumstances there are to counterbalance the loss on that account.

These circumstances are of two kinds:

1. Gain by exchange in the sale of the bills drawn by the Treasury, and upon the higher rate of interest on the credits which were given for those bills, than was payable on the fund upon which they were drawn.

2. Gain by exchange on the payments to France.

According to my calculation, founded on the best information extant, the real par of metals, between the United States and Amsterdam, makes a current guilder equal to 35 $\frac{89}{100}$ ninetieths of a dollar. The lowest rate which has been obtained for the bills has been 36 $\frac{4}{11}$ ninetieths, with an allowance of sixty days' credit, without interest. Making a deduction for the interest, the bills were still sold above the true par. In some instances, they have been sold as high as forty cents and seven mills per guilder, with interest for the whole term of the credit given.

The rate of interest, for the credits allowed upon the bills, was six per cent.; the mean interest paid upon the fund, five per cent.; producing, consequently, a gain of one per cent.

With regard to the payments to France, if the current rate of exchange between Paris and Amsterdam, at the moment of each remittance or payment

were to govern, a large profit would result to the United States; but certain equitable considerations will produce deductions, which will greatly lessen this advantage; yet, making a liberal allowance for them, there is ground to calculate that a saving may be made in this particular, more than sufficient to indemnify for the loss of interest. Hence any positive advantage which will have been otherwise gained will probably be undiminished by that circumstance.

I proceed, in the next place, to state the views which prevailed, respecting the sums that have been from time to time drawn for, the purposes they have hitherto answered, and the further advantages to be expected from the measure.

The direct object of all the sums drawn for, prior to July, 1792, was the purchase of the debt. A collateral consideration, which operated in the first stages of drawing, has also been mentioned. It has likewise been stated that the early purchases of the debt are to be ascribed to the instrumentality of the fund derived from the loans. This idea shall now be explained.

Two mistakes appear to have influenced the impressions which have been entertained in relation, directly or indirectly, to this subject. First, it seems to have been all along forgotten that a considerable part of the duties is always outstanding, on account of the credits which are given; whence the assertion that the sinking fund has continually overflowed from domestic resources. Second, it seems to have been taken for granted that the proceeds of the loans

have remained apart, distinct from the mass of the money in the Treasury; while, in truth, the course of the business has been to turn them over to the Treasurer by warrants as they have been received, so as to form a part of the aggregate, from time to time, appearing in his hands and in his accounts. The banks have been the agents employed for selling the bills. Sometimes warrants on account have issued upon them for the sums accruing from the sales; at other times the warrants have been deferred till the whole proceeds of any parcel have been received, and the accounts of the bank settled at the Treasury; as the state of the Treasury has happened to render the one or the other more convenient.

The banks of North America and New York were the agents for the sale of all the bills which were sold prior to April, 1792, amounting to 1,006,526 dollars and 36 cents. Of this sum, 361,391 dollars and 34 cents were passed over to the Treasury in 1791; 327,136 dollars and 22 cents in March, 1792; and 140,000 dollars in June following; the residue having remained, as heretofore stated, in deposit with the Bank of North America, upon a special consideration. This is exclusive of certain bills furnished for the use of the Department of State, amounting to 78,766 dollars and 67 cents.

The remainder of the bills which have been sold, beginning in April, 1792, were sold by the Bank of the United States, and its branches at New York and Baltimore. The accounts of the sales had just been made out for settlement when the present inquiry began, but warrants had not yet issued for placing

the proceeds in the Treasury. It will be remarked that, from the terms of credit allowed, they only began to be receivable in October last, the 26th day of which month the first return made by the bank shows a sum of 127,225 dollars and 53 cents received, and that the collection had not been completed when the accounts of the sales were rendered.

There are different views of the subject which will enable the House to perceive that the possession of the fund in question was necessary to enable the Treasury to furnish the means of making all the purchases which were made prior to July, 1792.

It is true that there was a surplus of revenue to the end of the year 1790, equal to 1,374,656 dollars and 40 cents, which was appropriated to purchases of the debt; and, from the credits then given upon the duties, this surplus would naturally come into the Treasury in the course of the year 1791.

But the Legislature, foreseeing that the revenue of 1791, from the same cause, could not actually be in the Treasury within that year, to face the appropriations upon it (which, it is to be observed, were nearly commensurate with the fund), inserted a clause in the law appropriating the surplus of 1790 to the purchase of the debt, which authorized a reservation of so much of that surplus as might be necessary to make the payments of interest during 1791, in cases of a deficiency in the receipts into the Treasury, on account of the current revenue of the year.

It will appear to the House, upon a recurrence to the Treasurer's quarterly account, ending the 30th

of September, 1791, that the balance of cash then on hand was 662,233 dollars and 99 cents.

At that time there had been paid into the Treasury, upon warrants, from the proceeds of the bills drawn upon the foreign fund, 361,391 dollars and 34 cents; consequently the balance of cash, had it not been for that auxiliary, would have been only 300,842 dollars and 65 cents, considering the whole balance in the Treasury as representing an equal sum of the proceeds of the bills.

Even in a time of complete peace, in a country where a small extent of moneyed capital forbids a reliance upon large pecuniary aids to be suddenly obtained, a prudent administrator of the finances could not feel entirely at ease with a less sum, at all times in the certain command of the Treasury, than 500,000 dollars, for meeting current demand and extra exigencies, which, in the affairs of a nation, are every moment to be expected. But, with a war actually on hand, and a possibility of its extension to a more serious length, he would be inexcusable in leaving himself with a less sum at command, unless from an impracticability of doing otherwise. It would be always his duty to combine two considerations—the chance of extra calls for money, and a possibility of some failure in the receipts which were expected. Derangements of various kinds may happen in the commercial circle, capable of interrupting, for a time, the punctual course of payments to the Treasury. It is necessary, to a certain extent, to be prepared for such casualties.

But during the year 1791 there was a circum-

stance which operated as an additional reason for keeping a respectable sum always on hand. The loans of the domestic debt were going on till the last of September of that year; while, at the same time, the interest was in a course of payment. It was, therefore, always uncertain what sum would be payable at the end of a quarter, this depending on the eagerness or backwardness of the public creditors in bringing forward their subscriptions or their claims as non-subscribers. The omissions at the end of a preceding quarter might be expected to fall upon a subsequent one; and it was necessary to be prepared for that possibility; of course, to keep in hand a larger fund for contingent demands. This necessity extended to the termination of the period for receiving subscriptions; because the Treasury was to be prepared on the supposition that the whole of the domestic debt would then be in a state to receive interest, either as *subscribed* or *unsubscribed* But this did not, in fact, happen. A part of the sums which were presented were crowded into the last days of the quarter, and were too late for a dividend. A considerable sum remained ultimately in a form which, according to the terms of the provision, did not entitle it to interest, either as *subscribed* or as *unsubscribed* debt.

Hence the cash in the Treasury on the 1st of October, 1791, was by a considerable sum greater than was to have been counted upon, or than might have happened.

The conclusion which results from the foregoing observations is this: that the purchases which preceded the 1st of October, 1791, and which amounted

to 699,984 dollars and 23 cents in specie, could not have been hazarded, but for the aid of the sums which had actually accrued from the proceeds of the bills and the expectation of those which were to accrue from the yet uncollected proceeds of others.

Had it not been for this aid, the Treasury would have been left more bare than was consistent with the security of public credit and the certain execution of the public service.

There is, however, a later period in the state of the Treasury, which will more completely illustrate the idea intended to be established. This is the 2d of July, 1792.

On that day the balance of cash in the Treasury, comprehending the deposits in all the banks, and including a sum of 200,000 dollars received on loan of the Bank of the United States, together with a sum of 220,900 dollars in bills drawn upon domestic funds, the proceeds of which had not been received, was 623,133 dollars and 61 cents.

Prior to this period a further sum of 545,902 dollars and 89 cents, arising from the sales of foreign bills, had been placed in the Treasury by warrants, making, with the former sums placed there from the same source, 907,294 dollars and 23 cents.

Had it not been for this auxiliary and that of the loan from the bank, the Treasury would then have been in arrear 484,160 dollars and 62 cents. It, therefore, necessarily follows that for the purchases to that period, which amounted in specie to 942,672 dollars and 54 cents, at least 484,160 dollars and 62 cents must have come from the foreign fund.

But when it is considered, for the reasons which have been stated, and which will hereafter be fortified by others, tending, as I conceive, to give them conclusive force, that the sum in the Treasury at the period in question was barely what ought to have been there for safety and for a due supply of current demands, it will follow that the whole, or nearly the whole, of the purchases which were made previous to July, 1792, were made by the means or instrumentality of the foreign fund.

A similar view, extended to the subsequent quarter, will exhibit this point in a still clearer light. The balance then in the Treasury, including a further loan from the bank of 100,000 dollars, was only 420,914 dollars and 51 cents.

What, then, it may be asked, became of the surplus revenue to the end of the year 1790? what was the office performed by that fund during the period in question?

The answer is that it served exactly the purpose which was anticipated by the Legislature. It came in aid of the current receipts for satisfying the current expenditures of 1791, with particular reference to the interest of the debt. This will easily be comprehended when it is recollected that the appropriations made during 1791 upon the revenues of that year, and some small surpluses of antecedent appropriations, amounted to 3,637,058 dollars and 34 cents; that the revenues themselves amounted to no more than 3,553,195 dollars and 18 cents; and that, at the end of 1791, there were outstanding, in bonds for the duties on imports, besides the chief part of

the proceeds of the duties on spirits distilled within the United States, then also uncollected, 1,828,269 dollars and 28 cents.

On this point, likewise, of the surplus of revenue to the end of 1790, it is presumable a misapprehension has been entertained. It seems to have been supposed that that surplus, as well as the proceeds of the foreign fund, have been kept separate and distinct from the common mass of the moneys appearing from time to time to be in the Treasury.

It has been already observed that this was not the case with regard to the foreign fund. It is now proper to add that it has not been the case either with regard to the surplus question. That surplus, as received by the collectors of the customs, has regularly passed into the Treasury, and appears in the quarterly accounts of the Treasurer for the periods to which they relate.

It is the course of the Treasury, resulting from the constitution of the Department, for all moneys, from whatever source, to be brought into it, to constitute an aggregate, subject to the dispositions prescribed by law. The moneys to be employed in the sinking fund have consequently only been separated, as they have been called for, *for actual investment.* The only exception to this relates to that part of the sinking fund which is created by the interest of the debt purchased. This has been included in the quarterly dividends, and covered by the warrants in favor of the cashiers of the banks for paying those dividends, after which they have passed into a dis-

tinct account in the books of the bank opened with Samuel Meredith as agent to the commissioners of the sinking fund.

To the foregoing representation it may seem an objection that the purchases to the end of 1791 appear to have been carried to the account of the surplus at the end of 1790.

The ultimate form which it has been judged convenient to give to the transaction in the accounts of the Treasury cannot change what was truly the course of facts. The proceeds of the above-mentioned surplus and of the foreign loans formed together the fund for purchases. In the accounts of the Treasury the thing was susceptible of various modifications at pleasure. The two parts of the fund might have been united in one account, or divided into distinct accounts. Being separated, moneys issued for purchases might have been legally carried to either of them.

It was judged most advisable in the forms of the Treasury to place the purchases to the end of 1791 to the account of the domestic fund, because it was calculated to give greater latitude and energy to the sinking fund. Had not this course been pursued the business would have taken the following shape: the foreign fund, to the extent of the purchases, would have been exhausted; the whole, or the greater part of the surplus of 1790, would have continued wrapt up in the expenditure of 1791, not liable to be liberated till the *receipts* into the Treasury should yield a correspondent surplus beyond the *actual disbursements*—which could not have been

the case while the war with the Indians continues to call for extraordinary expenditures.

From the form into which the thing has been thrown, the foreign fund has been set free to be applied to further purchases; and a necessity produced of anticipating the outstanding duties by temporary loans for the current service.

I trust there can be no doubt that the course pursued was regular and within the discretion of the Department. I hope, also, that it will appear to the House to have been the most eligible. The expediency of giving the earliest and greatest possible extent and activity to whatever concerns the sinking fund will, it is presumed, unite all opinions.

What has been said hitherto respecting the employment of the foreign fund is applicable only to that part of it which was drawn for prior to April, 1792; the residue standing in a different situation, and requiring a separate examination.

From the statement which has been given, it may be perceived that the fund in question has neither been idle nor useless. A confirmation of this will be found in the following details:

The whole sum successively received on account of Amsterdam bills, up to the 17th of August, 1791, was 361,391 dollars and 34 cents. The amount of the moneys invested in purchases prior to that day was 350,000 dollars, chiefly by anticipation of those receipts.

The whole sum successively received on account of Amsterdam bills, from August 17, 1791, to March 1, 1792, was 408,722 dollars and 69 cents. The amount

of the moneys invested in purchases between those periods was 349,984 dollars and 23 cents, chiefly in the month of September, and by anticipation of those receipts.

The whole sum successively received on account of Amsterdam bills, subsequent to the 1st of March, and prior to July, 1792, was 235,412 dollars and 33 cents. The amount of the moneys invested in purchases between those periods was 242,688 dollars and 31 cents.

It was stated in my first letter, that 177,998 dollars and 80 cents of the proceeds of the foreign bills were left in deposit with the Bank of North America; and in a note upon statement B, accompanying that letter, the occasion of it was shown to be an advance without interest, made by that bank, for the use of the Department of War; which could not yet be covered, in consequence of a doubt still remaining, whether the fund appropriated for satisfying that object was adequate to it—the sufficiency of that fund depending in part on certain unexpended residues of antecedent appropriations, which it was expected would not be finally necessary for satisfying the purposes of those appropriations.

It is to be remarked, that the delay of the employment of this part of the proceeds of the foreign fund has been compensated by a saving of interest on the sum advanced by the bank, which otherwise must have been procured upon a loan with an allowance of interest, probably at the time of the advance, at a rate of six per cent.; so that, even in this particular, the fund, though temporarily suspended from its

destination, has not been idle or unproductive. I reserve for another place some additional observations and statements, which will be calculated to shew that opportunities of investing the moneys at any time on hand, applicable to purchases of the debt, were not suffered to pass unimproved. and that as much in this respect was done as the state of the Treasury and the state of the market would permit.

It has been said, that a distinct examination would be proper with regard to the bills which have been drawn upon the foreign fund subsequent to March, 1792. I proceed now to this examination.

The expediency of what has been, in this respect, done, seems to have been called in question, under a suggestion, that an application of the fund to purchases had ceased to be advantageous.

The drawing of these bills has been at different periods influenced by various considerations. A leading motive was always the purchase of the debt. And a correct view of the subject will, I doubt not, satisfy the House, that the measure was recommended by an adequate prospect of advantage.

It is to be observed, that all these drafts were predicated upon the two four-per-cent. loans; being, as already stated, real 4½-per-cent. loans.

There was good ground to presume, that opportunities would be found of investing the moneys drawn for in purchases which would yield at least five per cent. with a possibility of doing still better. The difference of ½ per cent. was alone an object of importance; but it would be coupled with the further benefit of reducing a principal sum materially

exceeding the sum invested. When the three per cents are purchased at 12*s*. in the pound, there is not only a redemption of an annuity of five per cent. but a sinking of a capital of 20*s*. for 12*s*. And though this might not be material, if the market rate of interest should never fall below five, because in that case the three per cents might always be purchased at the same rate; yet if it should at any time happen, that interest fell below five, it would be a gain to the Government to have purchased at five, in exact proportion to the difference between five and the then market rate. Add to this, that the three per cents have generally a value in the market more than proportioned to the income they produce, which arises from the capacity of the capital to appreciate even to par. These observations are also for the most part applicable to the deferred, with this circumstance in addition, that, when interest begins to be payable on that species of stock, the money invested, and which, in the meantime, would have produced five, would then begin to produce to the Government six per cent., with the advantage of having anticipated the redemption of a species of stock of right only gradually redeemable. Combining these considerations, it appears to be clearly and even eminently for the interest of the Government to purchase within the limit suggested, with a fund which does not cost more than 4½ per cent.

That this was the view of the subject which governed, is deducible not only from the circumstances of the fact, but from my letter of the 2d of April, 1792, to Mr. Short, announcing my intention to draw,

in which I assign as the ground of that intention, "that I considered it for the interest of the United States to prosecute purchases of the public debt with moneys borrowed on the terms of the last loan," meaning the loan of the 1st of January, 1792, at four per cent.

If the event be taken as a criterion, the anticipation will be more than justified, the present juncture offering an opportunity for purchases peculiarly advantageous.

But, without insisting on a state of things occasioned by extraordinary circumstances, it was morally certain that the common course of events would render the operation a beneficial one. And it would not argue peculiar foresight, if a calculation was even made on the effect which the situation and probable progress of affairs in Europe might produce upon our market. A pretty general war there, by extending the demand for money, would naturally divert from our stocks a portion of what might otherwise be employed upon them, and affect injuriously their prices. It is also a familiar fact that, during the winter, in this country, there is always a scarcity of money in the towns—a circumstance calculated to damp the prices of stock.

A consideration, which collaterally influenced the drawing of the later bills, was the situation of the French colony of St. Domingo.

This not only produced an early application for a considerable advance, which was promised, but it was to be foreseen, that still further aids would be indispensable.

Indeed, sundry letters from Mr. Short, the first dated at Paris, the 28th of December, 1791, announced the daily probability of an arrangement requiring an advance here of 800,000 dollars for the use of that colony. A sum of 4,000,000 of livres has in fact been successively stipulated for that object, the greatest part of which has been actually furnished.

It is known that these supplies could proceed from no other source than the foreign fund.

The payment to the foreign officers of near 200,000 dollars, by which an interest of six per cent. would be released, was another object for which provision was to be made out of the same fund.

These several purposes conspired with the object of purchasing the debt to induce the latitude of drawing which took place.

But there was still a further inducement which came in aid of the others. The time for reimbursing the first instalment of the two millions of dollars due to the bank was approaching, when, by positive stipulation, the Government would have to pay two hundred thousand dollars, for which there was no domestic fund that could be spared from the current exigencies. I thought it incumbent upon this Department to have an eye to placing within the reach of the Legislature the means of fulfilling this engagement; the object of which bore a strict analogy to that for which the two millions authorized by the act making provision for the reduction of the public debt were to be borrowed.

I did not even scruple to take into the calculation, that if, from the extent of the draughts upon the

foreign fund, there should happen to be found on hand a larger sum than was necessary for, or could be advantageously employed towards, the several purposes which were the immediate and direct objects of the operation, the surplus would facilitate to the Government a measure manifestly and unequivocally beneficial—an additional payment to the bank, on account of a debt upon which an annual interest of six per cent. was payable; a measure by which a certain saving of one per cent., to the extent of the payment that might be made, would be accomplished.

The possibility of this application of the fund afforded a perfect assurance, that the public interest could in no event fail to be promoted.

I felt myself the more at liberty to do it, because it did not interfere with a complete fulfilment of the public engagements in regard to the foreign debt. It could be done consistently with a full reimbursement of all arrears and instalments which had accrued on account of that debt.

The detail which has been given comprehends a full exposition of the views and motives that have regulated the conduct of this Department in relation to those parts of the proceeds of the foreign loans which have been transferred to the United States, except as to the last sum of 1,237,500 florins, directed to be drawn for on the 30th of November last; in regard to which, circumstances of a special nature co-operated, as is explained in a note upon the copy of my letter of the 26th of that month to Mr. Short, forming a part of the communication herewith made by order of the President of the United States.

The House will perceive that the variety of matter comprised in this letter has not been collected and digested into its present form, without much labor and unavoidable expense of time. I trust they will be sensible that no delay has been unnecessarily incurred. It is certain that I have made every exertion in my power, at the hazard of my health, to comply with the requisitions of the House as early as possible. And it has even been done with more expedition than was desirable to secure the perfect accuracy of the communication.

Yet I have still to regret that some part of the subject must remain to be presented in a subsequent letter. To lessen, however, the inconvenience of this further delay, I shall transmit with the present letter the statements required by the first and second of the resolutions of the 23d of January, which will be found in the schedules herewith, marked Nos. I. to V.; those required by the last of the resolutions having been already forwarded.

There remain, however, some particulars to complete the information contemplated by those resolutions, that must be reserved for another communication. This I may venture to assure the House will not be deferred beyond the present, or at least the first day of the ensuing, week.

With perfect respect, I have the honor to be, sir,

Your most obedient and most humble servant,

ALEXANDER HAMILTON,

*Secretary of the Treasury.*

The Honorable the Speaker of the
House of Representatives.

No. I.—A statement of the appropriation for reducing the public debt, constituted by the act of Congress passed on the 12th day of August, 1790.

No. II.—A statement of the application of the funds drawn on the appropriation of the surplus of duties to the end of the year 1790, for the reduction of the public debt.

No. III.—A statement of the application of the fund constituted by the act of Congress, passed on the 8th of May, 1792, for reducing the public debt, arising from the interest on the sums of said debt purchased, redeemed, and paid into the Treasury of the United States.

No. IV.—Quarterly statement of cash in the hands of the Treasurer of the U. S. for the year 1791.

No. V.—Statement of cash in the Treasury, during the year 1792, showing the balance on hand half monthly.—*State Papers*, "Finance," vol. i., 210–214.

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Communicated to the House of Representatives.

TREASURY DEPARTMENT, February 13, 1793.

SIR:

In obedience to an order of the President of the United States, founded upon the requests contained in two resolutions of the House of Representatives of the 23d of January last, I have the honor to lay before the House—

1. The several papers numbered 1, 2, 3, 4, being copies of the authorities under which loans have been negotiated, pursuant to the acts of the 4th and 12th of August, 1790.

2. Sundry letters, as per list at foot, from the Secretary of the Treasury to William Short, Esq., and to Wilhem and J. Willink, N. and J. Van Staphorst and Hubbard, being copies of the authorities respecting the application of the moneys borrowed.

3. Statement A, showing the names of the persons by whom, and to whom, the respective payments of

the French debt have been made in Europe, specifying the dates of the respective payments and the sums. With regard to the precise dates of the respective drafts which may have been drawn, or orders which may have been given by Mr. Short to our bankers for making those payments, they cannot be furnished, not being known at the Treasury. It is, however, to be inferred from the correspondence and circumstances that they preceded but a short time the respective payments to which they related.

Statement B, showing by whom the payments have been made, on account of the Dutch loans, the dates, and the sums. As to the persons to whom the payments were made, no specification is practicable, these being the numerous subscribers to the several loans, their agents or assignees. It has never been considered, either under the former or present Government, as interesting to the Treasury to know who those individuals were. Indeed, by the transfers always going on, they are continually changing. The demand for a communication of their names would have been unprecedented, and the disclosure from time to time would have been attended with a great deal of useless but expensive trouble.

The statement desired in reference to the Spanish debt cannot be furnished. In a note upon statement No. 1 of my late report concerning foreign loans it is mentioned, "that advice had been received that the payment of this debt was going on, though it had *not been completed.*" This appears by letters from Mr. Short, now before the Senate, dated August 30th and

October 9th and 22d. No advice of the completion of the payment has been since received. All that is known is that our bankers were procuring bills, under orders from Mr. Short, for the purpose of remitting to Spain the sum necessary to discharge her debt.

There will be seen a difference in the statement now presented and No. 1 of my late report concerning foreign loans, as to the date of the last payment to France. In one the 9th of August is mentioned; in the other, the 6th of September. The fact is that it had its inception some time in August, but was not perfected till the 6th of September. Mr. Morris, who had been charged by Mr. Short with endeavoring to adjust with the French Treasury the rule by which the payments that had been and might be made should be liquidated into livres, having regard to certain equitable considerations, made an arrangement with it, provisionally, for the payment of 1,641,250 [1] florins, and wrote to Mr. Short requesting that he would direct the payment to be completed. There appear to have been two letters from Mr. Morris on the subject, one dated the 6th, the other the 9th of August. But Mr. Short, for reasons which he explains in his correspondence, now before the Senate, did not consummate the payment till the 6th of September. One statement has reference to the beginning, the other to the conclusion, of the affair.

I am instructed by the President to observe that there are some circumstances in the communications

[1] 1,625,000 Banco.

now made which would render a public perusal of them not without inconvenience.

With perfect respect, I have the honor to be, sir,
Your most obedient and most humble servant,
ALEXANDER HAMILTON,
*Secretary of the Treasury.*

The Honorable the Speaker of the
House of Representatives.

No. 1

*George Washington, President of the United States of America, to the Secretary of the Treasury for the time being.*

By virtue of the several acts, the one entitled "An act making provision for the debt of the United States," and the other entitled "An act making provision for the reduction of the public debt," I do hereby authorize and empower you, by yourself, or any other person or persons, to borrow, on behalf of the United States, within the said States, or elsewhere, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, and to make, or cause to be made for that purpose, such contract, or contracts, as shall be necessary, and for the interest of the said States, subject to the restrictions and limitations in the said several acts contained; and, for so doing, this shall be your sufficient warrant.

In testimony whereof I have caused the seal of the United States to be hereunto affixed.

Given under my hand, at the city of New York, this twenty-eighth day of August, in the year of our Lord one thousand seven hundred and ninety.

GEORGE WASHINGTON.

*By the President:*
TH. JEFFERSON.

No. 2

*George Washington, President of the United States of America, to the Secretary of the Treasury for the time being.*

Having thought fit to commit to you the charge of borrowing, on behalf of the United States, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, pursuant to the several acts, the one entitled "An act making provision for the debt of the United States," and the other entitled "An act making provision for the reduction of the public debt," I do hereby make known to you that, in the execution of the said trust, you are to observe and follow the orders and directions following, viz.: Except where otherwise especially directed by me, you shall employ, in the negotiation of any loan, or loans, which may be made in any foreign country, William Short, Esq. You shall borrow, or cause to be borrowed, on the best terms which shall be found practicable (and within the limitations prescribed by law as to time of re-payment and rate of interest), such sum, or sums, as shall be sufficient to discharge, as well all instalments, or parts of the principal of the foreign debt which now are due, or shall become payable to the end of the year one thousand seven hundred and ninety-one, as all interest and arrears of interest which now are or shall become due, in respect to the said debt, to the same end of the year one thousand seven hundred and ninety-one. And you shall apply, or cause to be applied, the moneys which shall be so borrowed, with all convenient despatch, to the payment of the said instalments, and parts of the principal and interest, and arrears of the interest of the said debt. You shall not extend the amount of the loan which you shall make, or cause to be made, beyond the sum which shall be necessary for completing such pay-

ment, unless it can be done upon terms more advantageous to the United States than those upon which the residue of the said debt shall stand or be. But if the said residue, or any part of the same, can be paid off by new loans, upon terms of advantage to the United States, you shall cause such further loans as may be requisite to that end to be made, and the proceeds thereof to be applied accordingly. And for carrying into effect the objects and purposes aforesaid, I do hereby further empower you to make, or cause to be made, with whomsoever it may concern, such contract or contracts, being of a nature relative thereto, as shall be found needful, and conducive to the interest of the United States.

If any negotiation with any prince or state to whom any part of the said debt may be due should be requisite, the same shall be carried on through the person who, in capacity of Minister, *Chargé des Affaires*, or otherwise, now is, or hereafter shall be charged with, transacting the affairs of the United States with such prince or state; for which purpose I shall direct the Secretary of State, with whom you are in this behalf to consult and concert, to co-operate with you.

Given under my hand, at the city of New York, this twenty-eighth day of August, in the year of our Lord one thousand seven hundred and ninety.

GEO. WASHINGTON.

No. 3

*To all to whom these presents shall come:*

Whereas by an act passed the fourth day of August, in this present year, entitled "An act making provision for the debt of the United States," it

is, among other things, enacted, that the President of the United States be authorized to cause to be borrowed, on behalf of the United States, a sum, or sums, not exceeding, in the whole, twelve millions of dollars, and that so much of that sum as may be necessary to the discharge of the said arrears and instalments, and (if it can be effected upon terms advantageous to the United States) to the paying off the whole of the said foreign debt, be appropriated solely to those purposes; and that the President be, moreover, further authorized to cause to be made, such other contracts respecting the said debt as shall be found for the interest of the said States: Provided, nevertheless, that no engagement or contract shall be entered into, which shall preclude the United States from reimbursing any sum or sums borrowed, within fifteen years after the same shall have been lent or advanced:

And whereas, by another act, passed the twelfth day of August, in the present year, entitled "An act making provision for the reduction of the public debt," it is also, among other things, enacted, that the President of the United States be authorized to cause to be borrowed, on behalf of the United States, a sum, or sums, not exceeding in the whole two millions of dollars, at an interest not exceeding five per cent.:

And whereas, by virtue of the said several acts, the President of the United States of America hath been pleased, by a certain commission or warrant, under his hand, to authorize and empower the Secretary of the Treasury for the time being, by him-

self, or any other person or persons, to borrow, on behalf of the United States, within the said States, or elsewhere, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, and to make, or cause to be made, for that purpose, such contract or contracts as shall be necessary, and for the interest of the said States, subject to the restrictions and limitations in the said several acts contained: And whereas Messrs. Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard, have, by letter, bearing date the twenty-fifth day of January, 1790, communicated to me, that they have entered into a certain provisional agreement, or arrangement, for a loan of three millions of florins, for the use of the United States of America, bearing an interest of five per centum per annum, and reimbursable by yearly instalments of six hundred thousand florins, commencing in the year one thousand eight hundred and one, and ending in the year one thousand eight hundred and five: And whereas it appears to me for the interest of the said United States to accept the said loan:

Now, therefore, be it known: That I, Alexander Hamilton, Secretary of the Treasury of the United States for the time being, by virtue of the power and authority in me vested, by the said President of the United States, and in his name, and on behalf of the United States of America, and to their use, do, by these presents, accept, agree to, ratify, and confirm the loan aforesaid, provisionally undertaken by the said Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard. And I do

hereby authorize and empower the said Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard, or, in case of the death of any of them, the survivors, to borrow, on behalf of the United States, either by way of confirmation of the said provisional agreement, or otherwise, as need may be, a sum, or sums, not exceeding, in the whole, three millions of florins, subject to the restrictions and limitations in the said several acts contained and above recited; and for that purpose, in the name of the said President, on behalf of the United States of America, to execute such contracts, obligations, and instruments as shall be necessary, and conformable to usage, in the like cases, and the faith of the United States to pledge for the performance of the terms thereof; and if the same shall be deemed requisite, to stipulate for the ratification thereof by the President of the United States; hereby giving and granting to the said Wilhem and Jan Willink, and Nicholaas and Jacob Van Staphorst and Hubbard, and the survivors of them, all my power and authority in the premises, and ratifying, allowing, and confirming whatsoever they shall lawfully do therein.

In testimony whereof, I have caused the seal of the Treasury to be affixed to these presents, and have hereunto subscribed my hand, the twenty-eighth day of August, in the year of our Lord one thousand seven hundred and ninety.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*

No. 4

*To all to whom these presents shall come:*

Whereas, by an act passed the fourth day of August, in this present year, entitled "An act making provision for the debt of the United States," it is, among other things, enacted, that the President of the United States be authorized to cause to be borrowed, on behalf of the United States, a sum, or sums, not exceeding, in the whole, twelve millions of dollars, and that so much of that sum as may be necessary to the discharge of the said arrears and instalments, and (if it can be effected upon terms advantageous to the United States) to the paying off the whole of the said foreign debt, be appropriated solely to those purposes; and that the President be, moreover, further authorized to cause to be made such other contracts respecting the said debt as shall be found for the interest of the said States: Provided, nevertheless, that no engagement or contract shall be entered into which shall preclude the United States from reimbursing any sum or sums borrowed, within fifteen years after the same shall have been lent or advanced:

And whereas, by another act, passed the twelfth day of August, in the present year, entitled "An act making provision for the reduction of the public debt," it is, also, among other things, enacted that the President of the United States be authorized to cause to be borrowed, on behalf of the United States, a sum, or sums, not exceeding, in the whole, two millions of dollars, at an interest not exceeding five per cent.:

And whereas, by virtue of the said several acts, the President of the United States of America hath been pleased by a certain commission or warrant, under his hand, to authorize and empower the Secretary of the Treasury for the time being, by himself, or any other person or persons, to borrow, on behalf of the United States, within the said States, or elsewhere, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, and to make, or cause to be made, for that purpose, such contract or contracts as shall be necessary, and for the interest of the said States, subject to the restrictions and limitations in the said several acts contained:

Now, therefore, know ye: That I, Alexander Hamilton, Secretary of the Treasury of the United States for the time being, by virtue of the said commission, power, or warrant of the President of the United States of America, have authorized and empowered, and by these presents do authorize and empower, William Short, *Chargé des Affaires* of the United States at the court of France, to borrow, on behalf of the United States, in any part of Europe, a sum, or sums, not exceeding, in the whole, fourteen millions of dollars, and to make, or cause to be made, for that purpose, such contract or contracts as shall be necessary, and for the interest of the said States, subject to the restrictions and limitations in the said several acts contained; and for so doing this shall be his sufficient warrant.

In testimony whereof, I have caused the seal of the Treasury to be affixed to these presents, and have hereunto subscribed my hand, the first

day of September, in the year of our Lord one thousand seven hundred and ninety.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*

A.—Statement showing the dates and sums of the respective payments which have been made on account of the debt due to France, out of the Dutch and Antwerp loans; and by whom, and to whom, the moneys were remitted or paid.

B.—Statement showing the respective payments which have been made by William and John Willink, Nicholas and Jacob Van Staphorst and Hubbard, in Amsterdam, to individuals, upon the several loans made in Holland, on account of the United States.

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## PUBLIC FUNDS

Communicated to the Senate, February 14, 1793.

TREASURY DEPARTMENT, February 14, 1793.

SIR:

I have the honor to transmit, herewith, in further pursuance of the order of the Senate of the 23d of January past, three several statements, marked A, B, C.[1]

A being a general account of revenue and appropriations: exhibiting, on one side, all the income of the United States, except from the proceeds of loans, foreign and domestic, to the end of the year 1792; on the other, the respective amounts of all the appropriations which have been made by law, to the same period.

B being a general account of appropriations and expenditures to the same end of the year 1792. This statement takes up the excess of the appropriations beyond the expenditure, to the end of the year

[1] See *State Papers*, "Finance," vol. i., p. 218.

1791, as contained in the account of receipts and expenditures, reported to the House of Representatives during the present session; and, including all the subsequent appropriations and expenditures to the end of 1792, shows the balance unsatisfied of each head of appropriation.

C being an explanatory statement, for the purpose of showing a conformity between the aggregate of the balances of appropriations unsatisfied, and the balance of the public income beyond the public expenditure, to the end of the year 1792, as represented in the statement B, heretofore reported.

It will be observed, that the most considerable item among the balances of appropriations is for interest on the public debt—amounting to one million three hundred and ninety-five thousand eight hundred and twenty-four dollars and sixty-five cents. This happens in three ways. 1st. The interest on the foreign part of the debt has been paid in Europe, out of the proceeds of the loans; the sum paid will consequently require to be replaced out of the domestic funds, and will operate as if an equal sum had been transferred here by drafts. 2d. The payment of interest to certain States, upon the difference between their quotas of the assumed debt and the sums subscribed upon the first loan, has been suspended, in consequence of the opening of the second loan, to avoid a double payment of interest, first to the States, and next to the subscribers, which might otherwise happen. 3d. There is a part of the public debt which has continued in a form that has not entitled the holders, under the existing

laws, to receive interest either as subscribers or non-subscribers.

There are certain arrears of interest, on the part of the debt entitled to interest, which did not come into the accounts of the year 1792.

This balance of interest, however, will be a real future expenditure, as, indeed, will be the case with regard to most of the other balances of appropriations. There will be surpluses, but these surpluses cannot exceed, if they equal, the sum mentioned in my letter of the 4th instant, to the House of Representatives.

With perfect respect, I have the honor to be,
Sir, your obedient servant,
ALEXANDER HAMILTON,
*Secretary of the Treasury.*

To the Vice-President of the United States and
President of the Senate.

A.—Statement of the revenue of the United States, and appropriations charged thereon to the end of the year 1792.

B.—General statement of the appropriations made by law, and of the expenditures of the United States in relation thereto, from the first day of January to the last day of December, 1792.

C.—Statement exhibiting the debts charged upon the unexpended and uncollected income of the United States on the last day of the year 1792.

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## LOANS

Communicated to the House of Representatives, February 20, 1793.

TREASURY DEPARTMENT, February 19, 1793.

SIR:

The last letter which I had the honor to address to the House of Representatives contained a pretty full

exposition of the conduct and views of this Department in regard to the foreign loans. There remain, however, some incidental topics which it may not be expedient to pass over in silence.

In order to carry the attention of the House immediately to a just application of the remarks which will be submitted, it is necessary to premise that it is known to have been suggested that the proceeds of the foreign bills drawn for to this country had no object of public utility—answered none—and were calculated merely to indulge a spirit of favoritism toward the Bank of the United States.

It has already been shown, clearly, I trust, that, but for the instrumentality of the parts of the loan drawn for prior to April, 1792, amounting nearly to one half of the whole sum, the purchases of the debt which were made to that time could not have been made; and that these purchases, besides being *the object designated by law*, for the application of the fund, were productive of positive and important advantages.

How far the operation could have been influenced by motives of favor to the Bank of the United States, the following facts will still more completely decide.

That bank did not begin its operations till the 12th of December, 1791.

The banks of North America and New York were the agents of the Treasury for the sale of the bills in question. They sold them, collected and, with the exception which will be presently stated, disbursed the proceeds.

The receipts on account of those bills began in March, 1791, and concluded in March, 1792.

On the 31st of December, 1791, as the Treasurer's account before the House will show, the public cash was deposited as follows:

| | |
|---|---|
| In the Bank of the United States . . | $133,000 00 |
| Bank of North America . . . | 471,972 28 |
| Bank of New York . . . | 224,677 35 |
| Bank of Massachusetts . . . | 65,578 22 |
| Bank of Maryland . . . . | 50,665 29 |
| Bank of Providence . . . | 7,969 61 |
| Making, together . . | $953,862 75 |

There was then also some moneys in the banks of North America and New York, in a course of receipt, which had not been passed over to the Treasurer; but all the public moneys, of whatever kind, in the Bank of the United States, are included in the above sum of 133,000, which had arisen from the duties on imports and tonnage.

It appears, then, that, on the 31st of December, 1791, no transfer for the benefit of the Bank of the United States had been made; and that the deposits of the Government there (exclusive of the proceeds of the bills remaining in the two banks, of North America and New York) amounted to little more than one fourth of the deposits in the Bank of North America, and little more than one half of those in the Bank of New York.

As late as the 1st of February, the State banks continued to share with the Bank of the United States a large proportion of the public deposits. The state of the Treasury then was as follows, viz.:

| | | |
|---|---|---|
| In the Bank of the United States | . . | $456,278 90 |
| Bank of North America | . . . | 151,516 32 |
| Bank of New York | . . . | 128,708 21 |
| Bank of Massachusetts | . . . | 71,215 55 |
| Bank of Maryland | . . . . | 49,583 25 |
| Bank of Providence | . . . | 7,969 61 |
| Making, together | . . | $865,271 84 |

A concentration of the public deposits in the Bank of the United States was a measure which grew out of the relation between that establishment and the Government. Yet, instead of hastening it through favor, it was resolved to let it have a gradual course; so as to consult, in a due degree, the convenience of the other banks, and to effect it rather by letting the public disbursements fall upon the moneys in those banks than by direct transfer.

But a state of things took place in the month of February, between the banks of the United States and North America, which rendered a more expeditious transfer than was meditated, for the mutual convenience of the two institutions.

The effect of this was, that the state of the Treasury, on the 1st of March, stood as follows:

| | | |
|---|---|---|
| In the Bank of the United States | . . | $692,959 06 |
| Bank of Massachusetts | . . . | 31,769 05 |
| Bank of New York | . . . | 32,352 52 |
| Bank of North America | . . . | 31,515 74 |
| Bank of Providence | . . . | 8,404 94 |
| Bank of Maryland | . . . . | 34,752 85 |
| Making, together | . . | $831,754 16 |

But at this time there was in the Bank of New York, from the proceeds of the foreign bills, 121,984 dollars and 71 cents, not transferred to the account of the Treasurer.

This accumulation, however, in the Bank of the United States, was of very short duration.

On the 1st of April ensuing, the state of the public cash was as follows:

| | |
|---|---|
| In the Bank of the United States . . | $359,643 64 |
| Bank of New York . . . | 254,930 41 |
| Bank of North America . . . | 31,515 74 |
| Bank of Massachusetts . . . | 37,712 58 |
| Bank of Providence . . . | 7,156 65 |
| Bank of Maryland . . . . | 60,418 32 |
| Making, together . . | $751,377 34 |

A similar state of things lasted to the 1st of June, comparatively more disadvantageous to the Bank of the United States. The receipts of public revenue continued to go into the Bank of New York till the 1st of April, 1792, when a branch of the Bank of the United States began to operate in that city; which is the reason of the sum in the Bank of New York bearing so near a proportion to that of the United States, and so far exceeding the Bank of North America. By this time, also, the balance of the proceeds of foreign bills had been passed to the account of the Treasurer; yet still remaining in deposit in the Bank of New York.

These views of the state of the public cash are conformable to the Treasurer's statement of half-

monthly balances, accompanying my letter of the 13th instant, No. V.

The same statement will show, that a proportion of the public deposits has continued, since the 1st of April, 1792, in the State banks; in those of North America and New York down to the end of the period which that statement embraces.

From these details the following inferences are deducible.

That, as far as any advantages may have accrued from the deposits on account of the foreign bills drawn prior to April, 1792, they accrued substantially to the banks of North America and New York, not to the Bank of the United States, or to its branches. That, in transferring the pecuniary concerns of the Government from the pre-existing banks to that of the United States and its dependencies, a cautious regard has been paid to the convenience of the former institutions, and the reverse of a policy unduly solicitous for the accommodation of the Bank of the United States has prevailed. Indeed, so much has this been the case, that it might be proved, if it were proper to enter into the proof, that a criticism has been brought upon the conduct of the Department, as consulting less the accommodation of the last-mentioned institution, than was due to its relation to the Government and to the services expected from it.

But further examination will demonstrate another point; which is, that none of the establishments in question have received any accommodations which were not in perfect coincidence with the pub-

lic interest, and in the due and proper course of events.

This examination will be directed toward two objects: one, the state of the Treasury at the commencement of each quarter during the years 1791 and 1792; the other, the state of the market in regard to the prices of stock during the same years.

These periods are selected, because they afford the truest criterion of the state of the Treasury, from time to time, being those at which the principal public payments are made; and for which it is necessary to be prepared by intermediate accumulations.

The state of the Treasury at the periods in question was as follows:

IN THE YEAR 1791

| | |
|---|---|
| January 1 | $569,886 55 |
| April 1 | 373,434 53 |
| July 1 | 533,638 24 |
| October 1 | 662,233 99 |

IN THE YEAR 1792

| | |
|---|---|
| January 1 | 953,862 75 |
| April 1 | 751,377 34 |
| July 1 | 623,133 61 |
| October 1 | 420,914 51 |
| January 1, 1793 | 783,212 37 |

This appears from the statements Nos. 4 and 5, forwarded with my last letter.

The state of the stock market, during the several quarters of the same years, was as follows:

FIRST QUARTER OF 1791

| | | | | | | |
|---|---|---|---|---|---|---|
| Six per cents from . . | 16*s.* | 9*d.* | to | 17*s.* | 6*d.* |
| Three per cents from . . | 8*s.* | 6*d.* | to | 9*s.* | 4*d.* |
| Deferred, from . . . | 8*s.* | 6*d.* | to | 9*s.* | 4*d.* |

SECOND QUARTER OF 1791

| | | | | | |
|---|---|---|---|---|---|
| Six per cents from . . | 17*s.* | | to | 17*s.* | 9*d.* |
| Three per cents from . . | 9*s.* | | to | 10*s.* | |
| Deferred, from . . . | 8*s.* | 11*d.* | to | 9*s.* | 4*d.* |

THIRD QUARTER OF 1791

| | | | | | |
|---|---|---|---|---|---|
| Six per cents from . . | 17*s.* | 10*d.* | to | 21*s.* | 3*d.* |
| Three per cents from . . | 9*s.* | 9*d.* | to | 12*s.* | 5*d.* |
| Deferred, from . . . | 9*s.* | 9*d.* | to | 12*s.* | 10*d.* |

As early as the 6th of August, the six per cents had a temporary rise to 21*s.*, but by the 16th they had fallen to 20*s.*; on the 20th they had risen to 20*s.* 6*d.*, and were sometimes above that rate, but never lower, during the rest of the quarter.

As early as the 23d of July the three per cents had reached 12*s.*, and were sometimes higher, but never lower, during the rest of the quarter.

On the 23d of July the deferred also reached 12*s.*, and afterwards rose to 12*s.* 6*d.*

FOURTH QUARTER OF 1791

| | | | | | |
|---|---|---|---|---|---|
| Six per cents from . . | 20*s.* | 4*d.* | to | 22*s.* | 4*d.* |
| Three per cents from . . | 12*s.* | 2*d.* | to | 13*s.* | 8*d.* |
| Deferred, from . . . | 11*s.* | 8*d.* | to | 13*s.* | 6*d.* |

The prices were lowest in the early, and highest in the latter, part of the quarter.

During the whole of the month of December, the

deferred was at 12*s.* 8*d.* and upwards—the greatest part of the time at 13*s.*

FIRST QUARTER OF 1792

| | | | | | |
|---|---|---|---|---|---|
| Six per cents from | 21*s.* | | to | 25*s.* | |
| Three per cents from | 12*s.* | 6*d.* | to | 15*s.* | |
| Deferred, from | 12*s.* | | to | 15*s.* | |

The low prices were in the last ten days of March.

SECOND QUARTER OF 1792

| | | | | | |
|---|---|---|---|---|---|
| Six per cents from | 20*s.* | | to | 22*s.* | 6*d.* |
| Three per cents from | 12*s.* | | to | 13*s.* | 9*d.* |
| Deferred, from | 11*s.* | 6*d.* | to | 13*s.* | 4*d.* |

THIRD QUARTER OF 1792

| | | | | | |
|---|---|---|---|---|---|
| Six per cents from | 21*s.* | | to | 22*s.* | 3*d.* |
| Three per cents from | 12*s.* | 4*d.* | to | 13*s.* | 6*d.* |
| Deferred, from | 12*s.* | 3*d.* | to | 13*s.* | 7*d.* |

FOURTH QUARTER OF 1792

| | | | | | |
|---|---|---|---|---|---|
| Six per cents from | 20*s.* | 2*d.* | to | 21*s.* | 9*d.* |
| Three per cents from | 12*s.* | 3*d.* | to | 13*s.* | 6*d.* |
| Deferred, from | 11*s.* | 10*d.* | to | 13*s.* | 6*d.* |

In October the deferred was at the highest. The lowest prices were in the month of December.

This view of the subject is derived from a statement of prices, pursuant to actual purchases and sales, furnished by a dealer of this city, respectable for his intelligence and probity, combined with the accounts from time to time published in the *Gazette of the United States*. The papers marked (A x.) and (B y.) are transmitted for the more particular information of the House on this head.

The market-prices of stocks no doubt varied at other places; at some may have been higher, at others lower. At Philadelphia, too, 't is believed that small sums were obtainable at particular periods, from necessitous individuals, below the prices in the statement.

But there is good ground of reliance that it is substantially a just representation of the state of the stock market during the periods to which it refers.

The state of the Treasury from the 1st of January to the 1st of October, 1791, may be said to have been at its proper level, exhibiting none, or an inconsiderable excess beyond the sum which has been mentioned as necessary to be there, and concerning which a further explanation has been promised, and will be given in the course of this letter. The public purchases in August and September, 1791, amounted to 349,744 dollars and 99 cents.

In the last quarter of the year 1791, beginning with the month of November, and the first quarter of the year 1792, there appears to have been an excess of some magnitude in the Treasury, being from about 250,000 to about 450,000 dollars. Taking the first quarter of 1792 as the truest criterion (which it certainly was, because at the expiration of that quarter the payment of interest on the assumed debt began, and was to be provided for), the real excess ought to be considered as 250,000 dollars; with the addition of about 80,000 dollars then in the Bank of North America from the proceeds of Amsterdam bills, beyond the advances of the bank for the public service, which had not been passed into the Treasurer's

account. It is proper to remark that the course of importations occasions large receipts in the latter part of each year, which circumstance contributed to the accumulation in question.

From the last of November to about the 21st of March an investment of the excess on hand in purchases was impracticable.

To enable the House to understand what is meant by saying that purchases were impracticable during that period, it is necessary to add that the prices of stock exceeded the limits which the commissioners of the sinking fund had prescribed to themselves. Indeed, a large proportion of the time those prices were manifestly artificial, and such as predicted a great fall not far distant. The delay incurred was accordingly well compensated by the prices at which investments were afterward made.

From the 21st of March to the 25th of April purchases were effected to the extent of 242,688 dollars and 31 cents in specie; within 80,000 or 90,000 dollars of what could have been spared, consistently with the rule which has been mentioned, as proper to regulate the arrangements of the Treasury.

But two circumstances operated against a further investment: a sudden rise of prices, and a state of temporary disorder in the two principal mercantile scenes of the country (occasioned by the excessive speculations that had preceded), which admonished the Treasury to be cautious in its disbursements.

It results from the foregoing view of the subject that, as far as any extraordinary sum may appear to have remained unemployed in the banks a longer

term than was desirable, it proceeded essentially from a state of things which did not permit its employment, and is in no degree attributable to that spirit of favoritism toward those establishments, or any of them, which has been imagined as the solution of appearances not rightly understood and much overrated.

The only question, then, of which the matter is susceptible, is this: Was not the state of things that did take place to have been foreseen, so as to have influenced the drawing for a proportionably less sum?

This question may safely be answered in the negative.

The bills, the proceeds of which *contributed* to constitute the excess, which remained unemployed during the two quarters were drawn in May, 1791. In that month the highest prices of stock were 17*s.* 2*d.* for six per cents, 9*s.* 2*d.*, for three per cents, and 9*s.* 3*d.* for deferred.

No reasonable anticipation, at this juncture, of the progressive rise of stock could have carried it in so short a time to the height which it attained, or beyond the limits within which purchases were deemed advantageous. The rapid and extraordinary rise which did ensue was, in fact, artificial and violent; such as no discreet calculation of probabilities could have presupposed. It therefore cannot impeach the prudence or expediency of having made provision, on a different supposition, for an extension of purchases.

The proceeds of the bills which were drawn subse-

quent to May only began to be collected about the beginning of February, and continued in collection until the 29th of March. On the 2d of February, the sum received amounted to no more than 13,431 dollars and 33 cents.

These last bills were drawn when the rapid rise of stock commenced, and were sold upon a credit of three months. It was a natural conjecture, that a rise so sudden and violent could not be of long duration; and that a declension would shortly succeed, which would afford an opportunity of purchasing with advantage, and render the intervention of public purchases advantageous in more than one respect. The event fully corresponded with the anticipation.

With regard to the bills drawn in April last, it has been stated that they were directed to be sold upon a credit of six months; that those drawn in July, August, and October were made payable, one moiety in two, the other moiety in four months. Hence, with a moderate allowance for delay in the sales, the period contemplated by the arrangement for the commencement of receipts was the month of October; that for their consummation, the month of February.

The inducements to the drawing of these bills have been stated. The present examination has relation merely to the question, whether the Bank of the United States, by premeditation of this Department, or subsequent omissions, had enjoyed any undue advantage from the deposits of the proceeds of the bills at the end of the year 1792, the point of time to which this inquiry has reference.

The statement which has been made, as to the time the moneys received to that period had remained in deposit, might alone be relied upon as a sufficient answer. If delinquency can be attached to the non-employment of one or two hundred thousand dollars for a few weeks, in the money operations of a nation, it implies a minuteness of responsibility which could never be encountered with prudence, and never will be fulfilled in practice. The distractions of attention, incident to a great and complicated scene of business, would alone disappoint the expectation.

But I have more than this to offer upon the present occasion. The opportunity for investing the moneys on hand, during the period in question, was not favorable. This was experienced by the Treasurer, in his endeavors to invest the fund arising from the interest on the purchased debt. There was no part but the deferred which could be had at all within the limits prescribed. Several indications of an approaching season, more advantageous for purchases, were discernible, and a better employment of the money than at the then prices presented itself to the option of the Legislature. This mode of employing it, formed, in my mind, part of a general plan for the regular redemption of the public debt, according to the right reserved to the Government. The one per cent. which might be saved was regarded as one means of constituting the proposed annuities.

Accordingly, on the 30th of November last, pursuant to a reference of the 22d of that month, and

connected with the plan of redemption contemplated, I submitted to the House of Representatives a proposition for applying the moneys in question toward discharging the debt which the Government owes to the bank, and upon which an interest of six per cent. is payable. This was manifestly, at the time of the proposition, the most profitable use that could be made of the fund. It has been already stated, that it would produce a saving, if extended to the whole two millions, worth to the Government an annual sum of 20,000 dollars—equal to a capital of 400,000 dollars.

This proposition tended to accelerate the employment of the moneys on hand, in a way the most beneficial to the Government; and consequently to shorten the duration of the advantage to the banks of holding them, by way of deposit. I submit it to the candor of the House, whether it be not full evidence that there was no disposition, on my part, to prolong to those institutions a benefit at the expense of the Government.

The proposition itself has not yet received the decision of the House.

Another ground upon which the suggestion of mismanagement and undue concession to the interest of the banks has been founded, respects the domestic loans which have been obtained. Those of them which have been made of the Bank of the United States are represented as unnecessary, tending to afford an emolument to that institution, for which the United States had no equivalent advantage.

It will conduce to a correct judgment of this matter, to resume a point already touched upon, and to add here the further illustrations of it which have been promised, to wit: that it ought to be a general principle to have constantly in the command of the Treasury, at its different places of deposit, a sum of about 500,000 dollars—a principle, too, which must be understood with reference to the beginnings of the quarters of a year, when the chief public payments are made and making.

The following observations will apply generally to the balances which appear at the commencement of each quarter. The greatest part of the interest for the preceding quarter will have been then deducted; but a part is always in a different situation.

The payment of interest upon a public debt, at thirteen different places, is an operation as difficult and complicated as it is new. In carrying it into execution, it is of necessity to lodge, for some time previous to the expiration of each quarter, at several of the loan offices, drafts of the Treasurer, for the sums estimated to be necessary at those offices, with blanks for the direction, and with liberty to the respective officers to dispose of them upon different places, as a demand accrues. This arrangement has an eye to two purposes: to avoid large previous accumulations at particular points; to facilitate the placing of the requisite sums, where they are wanted, without the transportation of specie. The allowing of the drafts to be disposed of on several places gives larger scope to a demand for them, and renders them more easily salable. But it is a consequence of this

that a part of the drafts are often not placed and brought into the accounts of the Treasurer, till some time after the expiration of the quarter. The fund for them of course appears on hand till the transaction is completed.

Connected with the circumstance of paying the interest upon the public debt at different places, is this further consequence. The transfers continually going on from one office to another render it impossible to know, at any moment when provision for the payment of interest is to be made, what sum is requisite at each place. Estimate must supply the want of knowledge; and, to avoid disappointment anywhere, the estimate must always be large, and a correspondent sum placed in the power of the commissioners. This circumstance alone requires an extra sum at the different places of payment, which ought not to be computed at less than fifty thousand dollars.

Again, the sums payable on account of the civil list, at the end of each quarter, which amount to about fifty thousand dollars, exclusive of what relates to the two Houses of Congress, are always in a course of payment for some time within the succeeding quarter. The fund for them consequently appears in the moneys on hand at the beginning of such quarter.

Again, there are constantly considerable arrears of existing appropriations, for which demands on the Treasury are at every moment possible; the times when they will be presented, and to what extent, at any given time, being in a great degree contingent.

The arrears for the different objects of the War Department can seldom be estimated at less than 150,000 dollars.

It is presumed to be a clear principle, that the Treasury ought to be always ready to face such arrears as may be claimed at every instant, or within any short period. An hour's distress or embarrassment to make good a public payment, already due, would be baneful to public credit. It has been a uniform maxim of the present administration of the Treasury never to risk such distress or embarrassment.

Independently, therefore, of the weighty consideration of being prepared (especially with a war on hand liable every moment to greater extension) for future casualties, the mere satisfaction of arrears ought to cause the constant reservation of a sum, that would be moderately stated at half the sum which it has been alleged ought always to be in the Treasury. It is to be observed, that it does not often happen that the current receipts to be expected in any immediately succeeding quarter are likely to exceed the probable expenditure of the quarter. The reverse is as often the case. Hence the greater necessity of maintaining a constant surplus.

There are still other considerations of weight, in a just estimate of the point in question.

The sum stated as necessary to be always in the command of the Treasury is never in fact at the seat of the Government, where far the greatest part of the public disbursements are to be made. The

depositories of it are the several banks from Charleston to Boston. The whole sum, therefore, can never be brought into immediate action for answering the claims upon the Treasury. No part can be properly viewed as in this situation, beyond New-York on the one side, and Baltimore on the other. Whatever part is more remote than these points ought not to be regarded as capable of being commanded in less time, upon an average, than sixty days, making allowance for the usual delays in the sale of bills, and the usual terms of credit, which experience has shown to be convenient.

In estimating the effective sum at any time on hand, in the Bank of the United States, it is necessary to be known, that a practice for the simplification of the Treasurer's bank account, begun with the Bank of North America, has been continued with the Bank of the United States, of this nature: The bills drawn by the Treasurer upon distant places, and deposited with the bank for sale, are immediately passed to his credit as cash, though they are allowed to be sold at credits from thirty to sixty days; and it is understood, that the proceeds are not demandable of the bank till they are collected. Hence the apparent sum in the Bank of the United States is always greater than the real; sometimes to a large amount.

The deductions to be made for this circumstance are shown in the Treasurer's half monthly statement of balances No. 5, beginning with the first of June, 1792, and ending with the first of January, 1793. The period begun with is that when the first

instalment of the loan from the bank was payable and has been selected for this reason.

The propriety of these deductions appears to have been objected to, by anticipation, on two grounds: one, that the bills deposited answer all the purposes of cash, and ought to be credited as such, on the receipt of them; the other, that "there is a regular and constant influx of moneys into the bank, by the operation of these bills, and that it is not very material whether a bill lodged in the bank to-day should be paid to-day, provided something like the same sum should be paid in consequence of a bill lodged in bank one or two months ago, and the bill of to-day should be paid one or two months hence."

Neither the one nor the other of these two positions is correct.

In no sense are the notes of the purchasers of the bills, which are taken payable in thirty, forty-five, and sixty days, the same thing to a bank as *cash*. It is evident it could not pay its own bills with those notes. In this primary particular, therefore, the comparison fails; neither could it make discounts upon the basis of those notes as *cash*. Because every discount gives a right to a borrower to call and receive in coin, if he pleases, the amount of the sum discounted. Notes are not coin, nor do they confer an equal power to pay. It is true that a bank will, in its discounts, make some calculation on expected receipts; but it can never consider them as equivalent to cash in hand, nor operate upon them in any degree to the same extent as upon equal sums in cash. If notes payable at future periods were

equivalent to cash, then every discount made by a bank would confer a faculty to make another for an equal sum; for there is always a note deposited for the sum discounted, and the power of discounting might, by the *mere exercise* of it, become *infinite*. An hypothesis of this kind will never be acted upon by any prudent directors of a bank, and could not be long acted upon without ruin to the institution. It is to be observed that the great profitable business of a bank, consists in discounting.

There is but one light in which the position under examination is in any degree founded. It is this, that, were it not for the instrumentality of the bills, the specie of the bank would be sometimes remitted for purposes which are answered by the bills. As often as this happens they are a substitute to the bank for cash, because they prevent equivalent sums from being carried away.

But this only sometimes happens. In numerous instances the enterprises to which the bills are subservient would not be undertaken at all were it not for the power of anticipation which the credits upon them afford. In many other instances the bills of the bank itself would be remitted instead of specie; in others, private bills would be substituted; in others, mutual credits between the merchants, to be liquidated in the course of mutual dealings, would supply the call.

Hence it is only true that Treasury bills *sometimes* answer the purpose of cash to the bank, whence it does not follow that they ought *always* to be considered and credited definitively as cash. It is also

true, though in a less degree, that notes deposited with the bank by individuals, for collection, sometimes answer to it the purposes of cash; but it will be readily perceived that it would be inadmissible, as a general rule, to receive and credit them as such.

The effect in both cases would be that the bank would make an *advance* of a present sum *without interest*, for a sum to be received in future.

An arrangement, indeed, has been for some time depending between the Bank of the United States and the Treasury, for securing to the Government the advantage of an immediate *absolute* credit for the bills deposited, as so much cash, to be coupled with some collateral accommodations to the bank. But it has not yet been carried into effect. The fact heretofore has been as stated, and the reasoning, to be just, must proceed on that basis.

The last of the two positions which have been cited has still less foundation than the first.

A sum received to-day, for a bill deposited two months past, can in no view be deemed a substitute for the amount of a bill deposited to-day *to be received* two months hence. It is to be remembered that the amount of the first bill was itself credited *at the time of the deposit;* and that the sum received to-day on that account can only *realize the antecedent credit*. It cannot represent or be an equivalent for the *future receipt* upon a different bill. To affirm that it could, is to make *one* sum the representative of *two*. The consequence of the reasoning would be that the Government ought to receive the money paid in to-day as a satisfaction, as well for the bill

deposited to-day, as for that which was deposited two months past.

Making the proper deductions on account of the bills, the amount of the effective cash in the banks of Philadelphia, New York, and Baltimore was, on the first of June, 587,091 dollars and 11 cents; in other banks there was then also the further sum of 9,591 dollars and 89 cents, making together 596,683 dollars. The amount of the effective cash on the second of July in the banks of Philadelphia, New York, and Baltimore was 217,234 dollars and 76 cents; there were then also in the other banks 184,998 dollars and 85 cents; making, together, 402,233 dollars and 61 cents. The amount of the effective cash on the first of October in the banks at Philadelphia, New York, and Baltimore was 244,394 dollars and 27 cents; there were then also in the other banks 145,420 dollars and 24 cents; making, together, 389,814 dollars and 51 cents.

The deductions for bills at the several periods were, June 1st, 157,508 dollars and 33 cents; July second, 220,900 dollars; October first, 31,100 dollars; so that, including the bills at that epoch, the whole sum in the banks at Philadelphia, New York, and Baltimore amounted to no more than 275,494 dollars and 27 cents; the sums in the other banks, to 145,420 dollars and 24 cents.

On the first of June there were paid on account of the debt to France 100,000 dollars; the day following, the first instalment of 100,000 dollars, on account of the loan from the bank, was received. On the 30th of June the second instalment of 100,000

dollars was received. These two instalments, amounting to 200,000 dollars, are included in the sum of 217,234 dollars and 76 cents, which, on the 2d of July, constituted the cash in all the banks at Philadelphia, New York, and Baltimore.

About the beginning of August another instalment on account of the loan of the bank was received, and on the 29th of September another, making, with the preceding ones, 400,000 dollars. This sum was involved in the balance in the Treasury on the first of October, which, it has been seen, did not exceed in the banks at and near the seat of the Government, including even unsold and unpaid bills, 275,494 dollars and 27 cents; and, comprehending the sums in all the other banks, amounted to no more than 420,914 dollars and 51 cents.

From the foregoing detail it appears that, excluding the 200,000 dollars received on loan of the Bank of the United States, in the month of June, there would have been, on the 2d of July, 1792, in the command of the Treasury at those places, from which immediate supplies may be derived, no greater sum than 17,234 dollars and 76 cents; that, excluding the 400,000 dollars, before that time received on loan of the same bank, there would have been on the 1st of October, 1792, an absolute deficiency within the scene described of 124,505 dollars and 73 cents; that the whole balance then in the Treasury, wheresoever deposited, amounted only to 420,914 dollars and 51 cents, and, excluding the loan of the bank, would not have been more than 20,914 dollars and 51 cents.

There must be some very radical error in my conceptions of the proper condition of the Treasury, if it was not in a sufficiently low state, during the whole period under consideration; and if it be not demonstrated that the moneys taken of the bank on loan were necessary for the public service, and were obtained with a due regard to economy.

There are circumstances which still further manifest the attention which has been paid to this point. The powers given to make loans for domestic purposes at different times, up to the 8th of May, 1792, comprehend an aggregate of 1,053,355 dollars and 74 cents; the sums which have been actually obtained upon interest amount to no more than 455,000 dollars.

The contract upon which the 400,000 dollars were obtained was made on the 25th of May, 1792, extending to 523,500 dollars, and contemplating the payment of 400,000 dollars of that sum by the bank, in equal monthly instalments, beginning on the 1st of June, and ending the 1st of September; the residue on the 1st of January, 1793.

Previous to the making of that contract there had been stipulated to be paid on account of the French debt, for the supplies of St. Domingo, 400,000 dollars, of which one fourth was paid in March, another fourth was payable on the 1st of June, another fourth on the 1st of September, another fourth on the 1st of December.

Particular causes render it an accommodation to the agents of France to postpone and subdivide the September instalment. A similar postponement

took place with regard to the instalment payable by the bank on the 1st of September, which was not demanded till the latter end of the month, and the remainder of the sum contracted for has not yet been demanded. The spirit of the precaution, which secured to the public the privilege of making or forbearing its calls, according to circumstances, needs no comment.

There remain to be noticed two circumstances, which will serve to throw additional light upon the conduct which has been observed with regard to the sums from time to time kept on hand. A comparison of the sums in the Treasury, during the years 1791 and 1792, will contradict the idea of any disposition to suffer the public moneys to accumulate, for the benefit of the Bank of the United States, and its subdivisions, and will at the same time indicate the general rule which has governed. In this comparison, it is necessary to recollect that larger operations were to be performed in 1792.

It may be objected, that the rule laid down has been on several occasions exceeded. How this has happened at certain periods has been explained. But there is a view of the subject which will throw further light upon it.

The sums which appear on hand at the end of any quarter are always larger on a *retrospective* than on a *previous* view. This proceeds from the following cause:

The judgment to be formed beforehand of the sums which will be received within any future period must of necessity be regulated by the returns in posses-

sion of the Treasury at the time the examination is made. As these come forward with more or less punctuality, that judgment will be more or less accurate; but, the appearance on the returns will always be short of the fact, because a certain number of returns, at any period of examination, will necessarily be deficient. What does not appear, must of course be essentially excluded from the calculation of the receipts to be expected within any near period. Because the extent of the sums which may have accrued, beyond those shown by the returns in hand, is unknown, and it is still more uncertain in what months the payments of them may fall; and the combinations of the Treasury, as to the means of fulfilling the demands upon it, ought to proceed as little as possible upon conjectures and uncertainties.

Monthly abstracts of the bonds taken at each port are the documents which serve to inform the Treasury of the progress of the receipts upon the duties of imports. From these a general abstract is made up once a month at the Treasury, for the information of the head of the Department, showing the amount payable in each month.

But very considerable differences appear from one month to another. The statement CZ, will serve as an illustration.

It contains a comparison of the sums shown by two successive abstracts, one of the 7th of November, the other of the 7th of December last, for a term of ten months, distributed into monthly subdivisions. The aggregate difference upon the whole

term between the two abstracts is 495,308 dollars and 73 cents; upon two months, beginning with November and ending with December, it is 151,789 dollars and 40 cents; upon a quarter beginning with January and ending with March, it is 174,471 dollars and 66 cents; upon a subsequent quarter, it is 81,055 dollars and 81 cents; upon a still subsequent quarter, it is 87,991 dollars and 86 cents.

Hence it is evident, that an arrangement founded upon the abstract of the 7th of November would suppose a receipt during any part of the time embraced by it, even the most proximate, considerably less than would appear by the abstract only one month later; and it must always happen, from this circumstance, that the actual receipts, while punctuality is preserved, will exceed the anticipations of them, and that greater balances will be found to exist at any given period than could have been beforehand safely calculated or acted upon. This circumstance, duly considered, will be a further and powerful justification of the conduct pursued generally, in relation to the moneys from time to time kept on hand, and particularly with regard to the loans of the bank. Low as the state of the Treasury appears to have been on a retrospective view, when the moneys upon those loans were called for, the prospect, at each time, must have presented the appearance of a less competent supply, or a greater deficiency, than was afterwards realized.

I am not sure but that I owe an apology to the House for taking up so much of its time in obviating the imputation of partiality or favoritism towards

the banks; the aspect under which I view it admonishes me, that I may have annexed to it greater importance than was intended to be given to it by its authors.

That a disposition friendly to the accommodation of those institutions, as far as might be consistent with official duty and the public interest, has characterized the conduct of the Department, will not be denied.

No man, placed in the office of the Secretary of the Treasury, whatever theoretic doubts he may have brought into it, would be a single month without surrendering those doubts to a full conviction, that banks are essential to the pecuniary operations of the Government.

No man, having a practical knowledge of the probable resources of the country, in the article of specie (which he would with caution rate beyond the actual revenues of the Government), would rely upon the annual collection of 4,500,000 dollars, without the instrumentality of institutions that give a continual impulse to circulation, and prevent the stagnation to be otherwise expected from locking up from time to time large sums for periodical disbursements; to say nothing of the accommodations, which facilitate to the merchant the payment of the considerable demands made upon him by the Treasury.

No man, practically acquainted with the pecuniary ability of individuals, in this country, would count upon finding the means of those anticipations of the current revenue for the current service, which have

been, and will be necessary, from any other source than that of the banks.

No prudent administrator of the finances of the country, therefore, but would yield to the disposition, which has been acknowledged, as alike essential to the interest of the Government, and to the satisfactory discharge of his trust; a disposition which would naturally lead to good offices, within the proper and justifiable bounds.

After the explanation which has been offered, to manifest the necessity and propriety of the loans made of the bank, it can scarcely be requisite to enter into a refutation of the process by which it has been endeavored to establish that the Government pays seventeen per cent. upon those loans. The state of the Treasury rendered it expedient to borrow the sums which were borrowed; they have been duly received, and the rate of interest stipulated upon them is five per cent. The Government then pays upon them five per cent. and no more.

The history which was given, in my last letter, of the course and situation of the foreign fund, proves that the supposition from which the inference, of paying seventeen per cent. upon the domestic loan, has been drawn, is erroneous. The balances on hand, at the respective periods in question, are the residues of the moneys which had been received from every source, including the loans, foreign and domestic.

But if the supposition which appears to have been made had been true, it was still impossible that seventeen per cent. could have been paid. By no construction can the rate be extended beyond ten.

The mean interest of the money borrowed abroad, including charges, is five per cent.; the interest stipulated to be paid on the loan from the bank is also five; the sum of the two is ten. It is immaterial for what purpose the foreign fund was obtained, whether to pay to France or to purchase the debt; the worst consequence that can result is *double* not *treble* interest. The interest payable to France is payable for moneys *borrowed* and *spent* during the war. It can never be truly said, that that interest is now payable on any existing fund, whether borrowed in Holland or borrowed in the United States, or borrowed there and re-borrowed here. It can never serve to make an addition to the cost or charges of any such fund. 'T is payable upon one long since *procured* and *used*.

But it is not obvious how the supposition came to be entertained, that all the moneys drawn here from the foreign fund had been borrowed for the payment of the debt to France. The presumption would seem to have been more natural, that they had been principally, if not wholly, introduced with a view to purchases of the debt, and consequently had a more special reference to the act authorizing a loan for that purpose. And the fact is, that this was the destination of far the greatest proportion of the sums drawn for. It has been stated that a part had an eye to the supplies to St. Domingo, and that another part was introduced with a view to the payment of the foreign officers.

The additional observations to which I shall request the attention of the House will apply to the

course and state of the sinking fund, concerning which I transmitted with my last communication three statements, numbered I., II., III.[1]

To give a more collected view of this part of the subject, it may be of use to include here a recapitulation of some ideas which have been stated in other places.

It is the course and practice of this Department, for all public moneys, from whatever source proceeding, to pass into the Treasury, and there form a common mass, subject, under the responsibility of the officers of the Department, to the dispositions which have been prescribed by law.

The surplus at the end of the year 1790, appropriated to the sinking fund, amounting to 1,374,656 dollars and 40 cents, went, as it was received, into the Treasury.

All the proceeds of the bills drawn upon the foreign fund prior to April, 1792, except the sum of 177,998 dollars and 80 cents, left in deposit with the Bank of North America for reasons which have been explained, passed from time to time into the Treasury. The whole amount of the sums paid in is 907,294 dollars and 23 cents.

The proceeds of the bills drawn for, in and subsequent to April, 1792, have not yet passed into the Treasury, for reasons which have been likewise assigned. It would have been done before this time, as far as the receipts had gone, but for the present inquiry, which temporarily suspended it. I thought it best to make no alteration in the state of things as

[1] For these statements see *State Papers*, vol. i., pp. 210, 211, 212.

they stood when it began, at least till all the information desired had been given. Measures will now be taken for a settlement of the accounts, and for a transfer of the proceeds. The whole amount of those bills, paid and unpaid, including an estimated sum of interest, will be, as heretofore stated, 1,220,476 dollars and 10 cents.

The whole amount of the bills drawn is 2,305,769 dollars and 13 cents.

Out of the sinking fund, composed of the surplus of the revenue to the end of 1790 and the proceeds of the foreign bills, there were issued from the Treasury and expended in purchases, to the end of 1792, 957,770 dollars and 65 cents.

For reasons which have been stated, it was finally deemed advisable to place those purchases wholly to the account of the surplus of 1790.

Consequently, there remained on the 1st of January of the present year 416,885 dollars and 75 cents of the above-mentioned surplus unapplied to purchases; and the whole of the foreign fund, except the sum of 726,000 dollars paid and reserved to be paid for the use of the colony of St. Domingo, and the sum of 191,316 dollars and 90 cents paid and reserved to be paid to the foreign officers, became free for future application. The balance of the proceeds of the bills, after deducting for those reservations, is 1,388,452 dollars and 22 cents.

Since the 1st of January, 1793, there have been issued, on account of the foreign fund, for purchases, 284,901 dollars and 89 cents.

The practice has uniformly been not to separate

any of the moneys belonging to the sinking fund from the common mass of the moneys in the Treasury, but in proportion to the occasions of investing them in purchases.

Hence the sum of 957,770 dollars and 65 cents, issued previous to the present year, and the sum of 284,901 dollars and 89 cents, issued during the present year, making, together, 1,242,672 dollars and 54 cents, are all the moneys which have been ever separated from the common mass of the Treasury for the purpose of the sinking fund; the whole of which, except 49,282 dollars and 74 cents, has been actually expended in purchases.

The unapplied sum remains deposited in the Bank of the United States, except a small balance of 61 dollars and 76 cents, in the hands of William Heth.

From the above rule, the part of the sinking fund arising from interest on the debt extinguished by purchases or otherwise is to be excepted. The practice hitherto has been to include this interest in the general dividend of each quarter, and the warrant issued to the cashier of the bank for paying it. The statement No. 3,[1] accompanying my last letter, shows the application of this fund hitherto.

The law directs that this fund shall be invested within thirty days after each quarter. This provision began to take effect on the 1st of July last.

But the investments were not made within the respective times prescribed. This proceeded partly from the state of the market, and partly from the regulations adopted by the commissioners, who were

[1] For statement No. 3, see *State Papers*, "Finance," vol. i., p. 212.

the Secretary of State, the Attorney-General, and the Secretary of the Treasury.

Their regulations, applying to the two first quarters, limited the prices to certain rates, and prescribed the mode of sealed proposals. The Treasurer was appointed agent for the commissioners.

The proposals, with regard to the first quarter, were receivable till the 28th of July inclusively; none were offered, as the Treasurer reported to me, and nothing was done.

The experiment of sealed proposals was again tried the second quarter, with somewhat more, though with but little, success. The restriction to this mode of proceeding was rescinded on the last day of the thirty allowed for purchasing, and some further purchases were made, but the whole sum invested was only 25,969 dollars and 96 cents.

The residue of this fund, except some small sums noted at foot of statement No. 3, was in January past.

The unapplied part of the surplus of 1790 having been expended in aid of the *receipts* of 1791, according to the provision which was made for that purpose, will remain suspended until the future *receipts* shall so far exceed the current *disbursements* as to produce a surplus for replacing it.

In computing the amount of the unapplied foreign fund, it is necessary to take into the account the payments made from it during the years 1791 and 1792 on account of the interest of the foreign debt.

Provision having been made for paying this interest out of the domestic revenues, the sums which have been paid on that account from the foreign

fund are to be considered in the same light as if they had been transferred here by drafts.

The amount paid at Amsterdam is 1,633,189 guilders and two stivers, equal, at $36\frac{4}{11}$ ninetieths per guilder, to 659,874 dollars and 34 cents.

There will be additions to be made, which are not at present ascertained.

Adding this sum to the proceeds of the bills, and deducting the sums paid and to be paid for St. Domingo and the foreign officers, and those applied to purchases during the present year, there will remain a sum of 1,763,424 dollars and 68 cents, subject to a future application.

Of this sum 1,715,098 dollars and 11 cents will be properly applicable to the purchase of the debt. But circumstances may render it eligible to appropriate a part of it toward the discharge of the foreign debt.

From the plan which has been pursued, it is also liable to this application.

I have the honor to annex to the statements heretofore transmitted those in the printed schedules marked A, B, and C.[1]

A exhibits the relative state of *revenue* and *appropriations* to the end of 1792; B, the relative state of *appropriations* and *expenditures* to the same period, showing the balance unsatisfied of each head of appropriation; C applies these statements to an explanation of the demands or charges upon the excess of income beyond the disbursements to the end of 1792.

[1] For A, B, and C see *State Papers*, "Finance," vol. i., pp. 219 to 222.

In addition to these are two statements, marked D and E.

D, showing what proportion of the balances unsatisfied of the several appropriations are likely to be real expenditures, and what part are not likely to be so. In this, however, in several instances, probability must guide, the nature of the thing not admitting of certainty.

E, showing the cash on hand upon the first of January last, and likely to be received from that day to the first of April next, and the sums paid and payable during that period.

The result, founded upon facts, contradicts very essentially that statement which aims at showing the ability of the Treasury, besides defraying the current expenses of the quarter, to pay off two million dollars to the bank, still leaving a balance in favor of the Treasury of 664,263 dollars and 54 cents.

It shows that, after satisfying the demands for which the Treasury is bound to be prepared, including a payment to the bank of only one tenth part of the two million dollars of which the statement alluded to supposes the complete payment, there would remain a balance in favor of the Treasury of no more than 664,180 dollars and 89 cents.

It could answer no valuable purpose to delay the House with a particular examination of the various misapprehensions which have led to a result so different from the true one. It will be sufficient, as an example, to state a single instance. It is assumed, as an item in the calculation, that a sum of a

million of dollars will come into the Treasury by the first of April, on account of the revenue of the *current* year, while the probability is, that the sum received may not exceed ten thousand dollars; this presumption of a million is evidently founded upon two mistakes. 1st. It proceeds on the basis of an annual revenue of four millions of dollars, and supposes this sum equally distributed between the different quarters of the year, a million to each quarter, when, in fact, there are two seasons of the year incomparably more productive than the other parts of it, viz.: those portions of the spring and fall which are embraced by the second and third quarters; the first and fourth being far less productive. 2d. It supposes all the duties which accrue are *immediately paid*, whereas the cases of prompt payment are confined to those in which the duties on particular articles, imported in one vessel, by one person or copartnership, do not exceed fifty dollars; in all other instances, a credit of not less than four months is allowed, which carries the payment on the importations, upon the very first day of the quarter, a month beyond the expiration of it.

If the whole amount of the duties which accrued during the first quarter of 1792, in cash and bonds, was no more than 307,163 dollars and 84 cents, adding one seventh for the additional duties, it ought, by analogy, to be during the first quarter of the present year 322,472 dollars and 94 cents; less, in totality, than the sum which it has been computed would be actually in money in the Treasury, by 677,527 dollars and 6 cents; and less, by the whole

million, nearly, than will probably be in money in the Treasury on that account. With perfect respect,

I have the honor to be, sir,
Your most obedient and most humble servant,
ALEXANDER HAMILTON,
*Secretary of the Treasury.*

The Honorable the Speaker of the
House of Representatives.

A x.—Market-prices of public stocks, taken from actual purchases and sales.

B y.—Prices of the public stocks, taken from the *Gazette of the United States.*

C Z.—Comparative statement of bonds for duties becoming due from November, 1792, to September, 1793, inclusive, as per monthly abstracts thereof, taken 7th November and 7th December, 1792.

D.—Statement showing the sums of appropriation, to the end of the year 1792, which will probably not be required to satisfy the same.

E.—Probable state of cash, from the last of Dec. 1792, to the 1st of April, 1793.—See *State Papers*, "Finance," vol. i., p. 230.

[In *State Papers*, "Finance," vol. i., page 281, may be seen a Report of a Committee of the House of Representatives, on "The Condition of the Treasury," explanatory of the matters to which this and several of the preceding papers relate.]

## OBSERVER [1]

March, 1793.

Among the observations which have appeared as containing the debates in Congress respecting the official conduct of the Secretary of the Treasury, Mr. Findley is represented as having made the following assertions: "That the Secretary of the Treasury had *acknowledged* that he had not *applied* the money borrowed in Europe *agreeably to the legal appropriations of the President.* That he had *acknowledged* his

[1] The speech of Mr. Findley, here referred to, was made March 1, 1793, and this reply probably appeared immediately afterwards, but I have not been able to discover in what newspaper it was published.

having drawn to this country, and applied in Europe to *uses for which other moneys were appropriated, three millions of dollars.* That he had *acknowledged* his having drawn from Europe more money than the law *authorized him to do.* That he was influenced to do so by motives not contemplated by the law, and had either applied it, or drawn it from Europe, with the design of applying it to uses not authorized, and that he had *broken* in upon the fund appropriated for the discharge of the French debt."

Before I read this speech I had carefully perused the different communications made by the Secretary of the Treasury to the House of Representatives, and after reading it I was led to revise them. The result has been that I have found all these assertions attributed to Mr. Findley either direct untruths or palpable misrepresentations, and I challenge Mr. Findley or any of his friends to produce the passages which will warrant them. The truth is, that Mr. Findley has palmed upon the Secretary his own reasonings and inferences for points conceded by him. The *commentary* has been substituted for the *text.*

OBSERVER.

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HAMILTON TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

TREASURY DEPARTMENT, December 16, 1793.

SIR:

It is known that in the last session certain questions were raised respecting my conduct in office, which, though decided in a manner the most satisfactory to me, were nevertheless unavoidably, from

the lateness of the period when they were set on foot, so accelerated in the issue, as to have given occasion to a suggestion that there was not time for a due examination. Unwilling to leave the matter on such a footing, I have concluded to request of the House of Representatives, as I now do, that a new inquiry may without delay be instituted in some mode, the most effectual for an accurate and thorough investigation; and I will add, that the more comprehensive it is, the more agreeable will it be to me.

I cannot, however, but take the liberty of assuring the House that a like plan to that which was pursued in the last session will never answer the purpose of a full and complete inquiry, while it would lay on me a burthen, with which neither a proper discharge of the current duties of my office, nor the present state of my health, is compatible. The unfavorable effect upon the business of the Department of the very considerable portion of my time which was engrossed by the inquiry of the last session has not yet entirely ceased.

With perfect respect, I have the honor to be, etc.

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## LOAN

Communicated to the House of Representatives, February 25, 1794.

Mr. Sedgwick, from the committee appointed to report whether any, and what, sum may be necessary to be loaned for the purpose of carrying on the public service for the year one thousand seven hundred and ninety-four, made the following report:

That, in their opinion, it is expedient that the President be authorized to borrow, on the credit of the United States, a sum not exceeding one million dollars, if, in his opinion, the public service shall require it.

PHILADELPHIA, February 22, 1794.

SIR:

A committee of the House of Representatives, having in charge "to report whether any, and what, sum may be necessary to be loaned for the purpose of carrying on the public service for the year 1794," have directed me to request of you answers to the following questions.

1. Whether money collected on account of the United States, and deposited in banks, is, from the time of deposit, considered as in the Treasury.

2. Are any, and, if any, what, means necessary to subject money, so deposited, to the control of the Treasurer?

3. In case money, so deposited, is not considered as in the Treasury from the time of deposit, who is, from that time, until it passes into the Treasury, responsible to the United States?

4. Is any money now so deposited, and, if any, is the probable amount such as to render a present provision for a loan inexpedient or unnecessary?

With much esteem, etc.

THEODORE SEDGWICK.

The Honorable the Secretary
of the Treasury.

TREASURY DEPARTMENT, February 25, 1794.

SIR:

The following are answers to the questions stated in your letter of the 22d instant, viz.:

Answer to question the first.

All moneys collected on account of the United

States, and deposited in banks, *to the credit of the Treasurer*, are considered as in the Treasury *from the time of deposit*. The steady course with regard to the standing revenue is, that the money deposited in banks passes immediately to the credit of the Treasurer. But it is necessary, to discharge the payers, that receipts of the Treasurer should be endorsed upon warrants signed by the Secretary, countersigned by the Comptroller, and registered by the Register, which is the course regularly observed.

Answer to question the second.

After moneys are deposited in banks to the credit of the Treasurer, they are in his control, though they may not legally be disbursed but upon warrants of the above description. If deposited without passing, in the first instance, to the credit of the Treasurer, the means used for placing them in his custody and disposal are warrants of the like kind.

Answer to question the third.

In respect to any moneys of the United States deposited in banks, but not passed to the credit of the Treasurer, the banks are considered as directly responsible to the United States; in the case of deposits to the credit of the Treasurer, they are responsible, in the first instance, to him; ultimately, to the United States.

Answer to question the fourth.

Only two cases are recollected, in which moneys of the United States may be considered as having been deposited in bank, without passing, in the first instance, to the account of the Treasurer. These relate—

1. To the proceeds of foreign bills sold for the Government, and received by the bank (all accounts of which are finally closed).

2. To the sum of two hundred thousand dollars, *being* the only sum now so deposited, which arises from the last loan had of the bank. It is left (subject to the eventual decision of the Legislature) as an offset against the second instalment of the two-million loan from the bank. The effect of the operation will be this: An interest of six per cent., payable to the bank, upon the instalment, will be extinguished, from the 31st of December last, by an interest of five per cent., payable to the bank, upon the sum borrowed of itself, and left in deposit. And it has been endeavored, thereby, to preserve consistency and regularity in the arrangements of the Treasury. The first instalment, by leaving in deposit an equal sum of the proceeds of foreign bills, was considered as effected on the 31st of December, 1792, though there was not power to consummate the payment till some months after. Hence it becomes regular, that each succeeding instalment should be paid on the last of December of each year. The *provisional* measure thus adopted was the only expedient in the power of the Treasury to reconcile, as far as practicable, considerations relative to the public interest and credit, with legality of procedure. Neither the sum in deposit, on the one hand, nor the instalment payable to the bank, on the other, is brought into the probable state of cash, lately presented to the House of Representatives, because they balance each other, and leave the result the same.

There are no existing sources from which moneys can come into bank, on account of the United States, except from the proceeds of the revenue, which, as far as known, are comprised in the statement before the House of Representatives. So that there is no resource, but a loan, which can supply the deficit of a receipt, in the course of the present and succeeding quarter, compared with the expenditure. Without one, a failure in the public payments is inevitable.

If what has been said should not give the committee all the light they desire, it is imagined that personal explanations would lead more fully to their object, than the course of written interrogatories and answers, which can only partially embrace the subject, and may procrastinate a right understanding of it. I am, sir, etc.,

ALEXANDER HAMILTON.

THEODORE SEDGWICK, Esq.,
*Chairman of a Committee.*

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HAMILTON TO WASHINGTON

March 24, 1794.

SIR:

A committee of the House of Representatives, appointed to inquire into the state of the Treasury Department, is charged, among other things, to inquire into the authorities from the President to the Secretary of the Treasury respecting the making and disbursement of the loans made under the acts of the 4th and 12th August, 1790. You will perceive by the inclosed copy of a paper of this date,

delivered to the committee, the opinion I entertain of the proper limits of a legislative inquiry on that subject.

But, in the event of a determination that the inquiry should be general, it becomes proper to fix with the President the true view of facts.

The real course of the transaction has been this. Before I made the disposition of any loan, I regularly communicated to the President my ideas of the proper disposition, designating how much it would be expected to pay to France—how much to draw to the United States—and always received his sanction for what was adopted and afterwards carried into execution. The communication and the sanction were verbal whenever the President was at the seat of government. In a case of absence, they were in writing. This will appear from my letters of the 10th and 14th April, 1791, and from the President's answer of the 7th of May, following. My letters of the 29th July and 22d September, 1791, and of the 27th August and 22d September, 1792, contain a further illustration of the general spirit of proceeding in the case, in regard to the consultation of the President.

The sanctions of the President were sometimes expressly, and always, as I conceived, in their spirit, founded in a material degree in the confidence that the measures proposed were guided by a just estimate on my part of circumstances which, from situation, must have been best known to me, and that they would be always in conformity to the law.

With the most perfect respect, etc.

## HAMILTON TO A COMMITTEE OF CONGRESS

April 1, 1794.

In the course of the present examination, respecting the point of authority under which any portion of the moneys borrowed abroad had been drawn into the United States, the Secretary of the Treasury did make the following question:

"I ask the committee appointed to inquire into the state of the Treasury Department, whether they expect from the Secretary of the Treasury the production of any authorities from the President to him, in reference to the loans made under the acts of the 4th and 12th of August, 1790, except such as regard merely the making of said loans, and the application and disbursement of such part of the proceeds of those loans as were to be disbursed in foreign countries.

"I object to the being required to produce any other authorities than those excepted, for the following reasons, viz.:

"1st. Because it results, from the constitution of the Treasury Department, that all receipts and expenditures of public money, within the United States, must pass through that Department, under the sanction of warrants from the Secretary, countersigned by the Comptroller, and registered by the Register; consequently, whenever a loan is made, either abroad or at home, on account of the United States, destined for disbursement within the United States, it becomes, *ex officio*, the province of the Treasury Department to draw the proceeds of such

loan into the Treasury, and to disburse from thence, according to law.

"2d. Because, when it once appears that the President has constituted the head of a department his agent, for any general purpose, intrusted to him by law, all intermediate authorities from the President to the agent, being conformable with law, are to be presumed. The proper inquiry for the Legislature must be, whether the laws have been duly executed or not; if they have been duly executed, the question of sufficiency or deficiency of authority, from the President to his agent, must be, to the Legislature, immaterial and irrelevant. That question must, then, be a matter purely between the President and the agent, not examinable by the Legislature, without interfering with the province of the Chief Magistrate, to whom alone the responsibility is.

"All authority from the President to do any thing not warranted by the laws of the 4th and 12th of August, is disclaimed. A complete responsibility for the due and faithful execution of those laws is admitted to rest on the head of the Department. He claims no protection from any instruction or authority of the President, for any thing which may have been irregular or wrong, but he respectfully conceives that the competency of his authority from the President to do, what being done, is conformable with the laws, is not, under the circumstances of the case, a proper object of legislative inquiry."

Upon the consideration of which question, the Committee came to the following resolution:

"*Resolved*, That the Secretary of the Treasury be requested to state to the committee, by what authority any portion of the moneys borrowed abroad have been drawn to the United States."

In consequence of which resolution the Secretary of the Treasury laid before the committee a paper in the following words:

### HAMILTON TO A COMMITTEE OF CONGRESS

April 1, 1794.

*Principles and course of proceeding with regard to the disposition of the moneys borrowed abroad, by virtue of the acts of the 4th and 12th of August, 1790, as to the point of authority.*

It was conceived by the Secretary of the Treasury to be a clear principle, resulting from the spirit of the act constituting the Treasury Department, and from the several provisions of that act, collectively considered, that all public moneys once obtained, and destined for disbursement within the United States, came, of course, under the direction of the officers of that Department, according to their respective functions, and that no special authority extrinsic to the Department was, in strictness, necessary to enable them to draw money, from whatever source originating, into the Treasury, or to issue them thence for the purposes designated by law.

It was also conceived by him to be, though a less clear principle, one most agreeable to the true spirit of the constitution of the Department, as well as essential to the preservation of order and due

accountability in the money transactions of the country, that even moneys procured abroad, and to be disbursed abroad, were, as to their application, to be under the direction of the same Department.

Under the influence of these principles, thus entertained with different degrees of assurance (the President having determined to place the procuring of the loans under the direction of the Secretary of the Treasury), the following course of proceeding was pursued:

The Secretary obtained from the President, in the first place, a general commission to him to make the loans authorized by the two acts of the 4th and 12th of August. A copy of this commission was communicated to the House of Representatives in the last session. No. 1 is dated the 28th of August.

He also obtained from the President an instruction, dated same day, to guide and justify him—1st, with regard to the person to be employed in Europe in negotiating the loans; 2d, with regard to the extent to which the loans under the first act, and payments on account of the foreign debt, should be carried, at all events, exclusively of the consideration of the advantageousness of the terms of the loans.

Nevertheless, from the special connection of the President with the subject, owing to the authority to borrow being immediately vested in him; from the circumstance of the existence of a particular discretion to be exercised by the President as to anticipated payments of the foreign debt, and from the official relation of each head of a department to the

President, the Secretary of the Treasury considered it as his duty, from time to time, to submit the dispositions of each loan to the consideration of the President, with his reasons for such disposition, and to obtain the sanction of the President previous to carrying it into effect, which was always had.

The communications to the President and his sanctions were for the most part verbal. Two exceptions appear, from letters (herewith shown) of the Secretary to the President, of the 10th and 14th of April, and 22d of September, 1791, and from the President to him of the 7th of May, 1791, relating to a case of absence from the seat of government. These letters are evidence of the course and spirit of proceeding.

It is to be understood that the sanctions of the President were always bottomed upon the representations of the Secretary, and were always expressly or tacitly qualified with this condition, that "whatever was to be done was to be agreeable to the laws."

Whereupon the committee came to the following resolution:

"*Resolved*, That it would be satisfactory to the committee, that the papers submitted to them April 1, 1794, by the Secretary of the Treasury, respecting the point of authority under which moneys borrowed abroad have been drawn to the United States, should be presented to the President of the United States, and that the Secretary should obtain from him, concerning the same, such declaration as the President may think proper to make."

WASHINGTON TO HAMILTON

Tuesday, April 8, 1794.

DEAR SIR:

Annexed to your statement of "Principles and Course of Proceedings," I have given the certificate required.

I am, yours always,

GEO. WASHINGTON.

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WASHINGTON TO HAMILTON

PHILADELPHIA, April 8, 1794.

SIR:

I cannot charge my memory with all the particulars which have passed between us relative to the disposition of the money borrowed. Your letters, however, and my answer, which you refer to in the foregoing statement, and lately reminded me of, speak for themselves, and stand in need of no explanation.

As to verbal communications, I am satisfied that many were made by you to me on this subject; and, from my general recollection of the course of proceedings, I do not doubt that it was substantially as you have stated it in the annexed paper, and that I have approved of the measures which you from time to time proposed to me for disposing of the loans, upon the condition that what was to be done by you should be agreeable to the laws.

I am, etc.

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HAMILTON TO WASHINGTON

PHILADELPHIA, April 9, 1794.

SIR:

I have analyzed the declaration which you have been pleased to make upon the copy of the paper of

the first instant, delivered by me to the Committee of Inquiry into the State of the Treasury Department, and find, with regret, that the terms used are such as will enable those who are disposed to construe every thing to my disadvantage to affirm, "that the declaration of the President has entirely waived the main point, and does not even manifest an *opinion* that the representation of the Secretary of the Treasury is well founded."

To this it would be added, that the reserve of the President is a proof that he does not think that representation true, else his justice would have led him to rescue the officer concerned even from suspicion on the point.

That this will be the interpretation put upon your declaration I have no doubt; and, in justice to myself, I cannot forbear to make this impression known to you, and to bring the declaration under your revision.

I am the more certain that this construction will be put upon the fact, from what has heretofore taken place. In the course of the discussion of the last session, an argument of this kind was, in private, urged against me: "If Mr. Hamilton had really acted by the authority of the President, or in due communication with him, would not the President take some method, either directly to Mr. Madison, or through Mr. Jefferson or Mr. Randolph, to make known to him that this ground of accusation did not exist? His not doing it, which may be inferred from Mr. Madison's urging the point, is a proof that there was no co-operation on his part."

In addition to this, I have learnt, from an authentic source, that a particular gentleman, supposed to possess good opportunities of information, has intimated, in a manner to induce a belief of its having come from you, that it never was your intention that any of the loans which were made should have had reference to the act making provision for the reduction of the public debt, and that you never knew any thing of the operation while it was going on.

Under all that has happened, sir, I cannot help entertaining, and frankly expressing to you, an apprehension that false and insidious men, whom you may one day understand, taking the advantage of the want of recollection, which is natural when the mind is habitually occupied with a variety of important objects, have found means, by artful suggestions, to infuse doubts and distrusts very injurious to me.

My consciousness of what has been the real tenor of my conduct, and my conviction of the fairness and rectitude of your mind, compel me to this conclusion.

Upon this, as upon every other occasion, my desire is to encounter, directly and without detour, whatever embarrassment may stand in my way. If, contrary to what I understood from Mr. Lear, during the discussion of the matter in Congress, and inferred from the late conversations with you, the affair does not stand *well* in your mind, I request the opportunity of a full and free conference on the subject, to recapitulate and go over all the circum-

stances which have occurred, in the hope of recalling to your memory what may have escaped it, and with a wish to abide the result in an explicit form—that is, by a declaration which shall render the main fact unambiguous, or shall record the doubt.

As, on the one hand, I expect what is due to the situation, so, on the other, I seek no palliation of delinquency, no cover for any defect of conduct.

The situation is indeed an unpleasant one. Having conducted an important piece of public business in a spirit of confidence—dictated by an unqualified reliance, on the one hand, upon the rectitude, candor, and delicacy of the person under whom I was acting; on the other, by a persuasion that the experience of years had secured to me a reciprocal sentiment (whatever imperfections it may have otherwise discovered); and by the belief, likewise, that, however particular instances might be forgotten, the general course of proceeding in so important an affair could not but be remembered — I did not look for a difficulty like that which now seems to press me. Knowing, too, that there existed in my written communications with the President (not only those which have been specified, but others), so many direct and indirect indications of what was truly the course pursued, I still less apprehended a difficulty of that nature when the occasion for explanation should occur.

Not seeking to escape responsibility for any improper execution of the laws—if any has happened—I do not imagine that want of immediate authority from the President to do what they would justify,

would be suffered to remain (the appeal being made to him) a topic of objection to my conduct.

In the freedom of these remarks I flatter myself, sir, that you will perceive nothing but that just sensibility which a man of honor, who thinks his veracity exposed to question, ought to feel; and that you will be persuaded I continue yet to retain, undiminished, all that respect which a long-established conviction of the existence of an upright and virtuous character ought to inspire.

With this sentiment, I have the honor, etc.

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### HAMILTON TO WASHINGTON

TREASURY DEPARTMENT, April 25, 1794.

I beg leave, by way of explanation, to submit the grounds of my opinion, that the President may vary his instructions of the 8th of August last, in reference to the application of the last loan obtained in Holland.

A summary of the preceding transactions will serve to throw light upon the subject.

The President, by his commission of the 28th of August, 1790, gave full power to the Secretary of the Treasury to make the whole of the two loans contemplated by the acts of the 4th and the 12th of August.

When, in the beginning of June last, certain considerations rendered it, in my judgment, expedient to obtain a further loan; I concluded to address myself to the President, not for want of power to proceed in the business, but to obtain the sanction

of his opinions and instructions as to the eligibility of the measure. This will appear from my letter of the third of that month.

After some explanatory communications, I received from the President his letter of the 27th of July, informing me of the shape the business had taken in his mind.

On the basis of that letter, I prepared the instructions of the 8th of August, which I considered merely as directions to me, from the President, in the execution of the general power of the 28th of August, 1790, to be understood in connection with the letter of the 27th of July.

The proposition in my report of the 15th of June was, that the proposed loan should be made upon the authority of both acts, and the letter of the President just mentioned precisely declares he did not intend by separate instructions to prevent the loans from being carried on without distinction in Holland.

Accordingly, I sent no new powers for making a further loan, but merely an *additional instruction* to make a loan of three millions of florins, on the basis of the former powers. This additional instruction, too, made no special reference to either act, but left the matter to proceed as before *without distinction*.

The consequence will be that the loan, as in all preceding cases, will be founded upon both the acts. I send for your inspection all the contracts heretofore made, as the evidence of what will be the form of the one not yet forwarded; all of which expressly and indiscriminately refer to both the acts.

The inference is, that according to the contract

itself (the formal obligatory act), the loan will be placed upon the joint foundation of the two acts, equally applicable, therefore, to the purpose of either.

This being the case, it is in my mind a clear proposition that the money remains in that state liable to be applied according to either or both the acts, till one of two things happens—an actual investment, or the being carried in the books of the Treasury specifically to the account of the particular appropriation.

It appears to me that there are but two circumstances which can attach irrevocably a similar fund to a particular destination—either its being so attached in its original creation by the formal obligatory act (to wit, the creation of the loan), or its having received in the Treasury its ultimate form by being carried to the account of the particular appropriation. This last, when the fund in its creation is liable to different destinations, is, as I suppose, the only thing which consummates and fixes the precise destination. It is the record, so to speak, of the sentence or *direction* of the law, ascertaining its application.

If this position be as solid as I believe it to be, it will follow that all collateral instructions of the President intervening between his original power to make the loan and the final application of the loan are mere directions to the Secretary of the Treasury, binding on him until they are revoked, but revocable at pleasure by the President until they are definitely acted upon at the Treasury.

This is my view of the subject, for troubling the President with which I have no other motive than merely to explain the ground of an important opinion.

I proceed now to execute the order of the President contained in his letter of yesterday.

The embarrassments which, I suppose, may possibly arise from fixing at this time the destination of the fund, are connected with the following considerations:

The laws, except by the means of loans, make no provision for the payment of any part of the *principal* of the foreign debt. Instalments of the principal of the Dutch debt are falling due yearly; the same is the case of the debt to France, deferring the computed anticipations, as has been heretofore done. Perhaps it may become the policy of the country, in a short time, to accelerate in the latter case.

The state of European affairs forbids a *reliance* on further loans there. The actual situation of the United States (and, *a fortiori*, its possible one) is likely to call for all the aid of domestic loans which is obtainable for domestic purposes. This resource, therefore, could not be depended upon as a substitute for foreign loans for foreign objects; still less, and for the same among other reasons, could additional taxation be counted upon.

Our credit, therefore, and in certain events our security in a degree, may depend on retaining a part of the resource in question in a situation to come in aid of both. Our credit entirely, and our security in a very small degree, are of far greater consequence

than the savings to be made by the investment of 1,200,000 dollars in purchases.

Past experience admonishes to caution. The last loan of a million of florins, and the present one of three millions, are in some sort accidents. Antecedent intelligence has in each case forbidden the expectation of either, as the President will see from the letters herewith transmitted. Had these not happened, and had the moneys originally drawn to this country for purchases been hastily so invested, our credit would in all probability have been lost; and things which we believe it of importance to have been done would have been impracticable.

A considerable defalcation of revenue this year seems probable. I feel, in a manner not less interesting to my own reputation than to the public interest, the advantage of extensive purchases at the present juncture. And though I think the opportunity will not escape, it enters into the plan which I should approve—to proceed gradually and circumspectly in availing ourselves of the advantage. But I do not incline either wholly to tie up the funds at this time, or to precipitate its application to that single object. I think the matter had better be left open, to be governed by circumstances as things shall unfold.

It appears to me better, at the hazard of some criticism, to waive or defer an advantage inferior in magnitude, rather than incur a probable risk of disadvantage of much greater magnitude.

It appears by the letter from the Commissioners announcing the loan, already communicated to the

President, that the receipts on account of it may be considerably protracted. This is a circumstance of some weight in the decision.

I submit these considerations with all deference to the decision of the President, and have the honor to be, etc.

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### HAMILTON TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

December 1, 1794.

SIR:—I beg leave, through you, to make known to the House of Representatives, that I have signified to the President of the United States my intention to resign my office of Secretary of the Treasury on the last day of January next. I make this communication in order that an opportunity may be given, previous to that event, to institute any further proceeding which may be contemplated, if any there be, in consequence of the inquiry during the last session into the state of this Department.

With perfect respect, etc.

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### PUBLIC CREDIT

Communicated to the Senate, January 16 and 21, 1795.

TREASURY DEPARTMENT, January 16, 1795.

SIR:—I beg leave, through you, to inform the Senate that, pursuant to the second section of the act establishing the Treasury Department, which expressly makes it the duty of the Secretary of the Treasury "to digest and prepare plans for the

improvement and management of the revenue and for the support of public credit," I have digested and prepared a plan, on the basis of the actual revenues, for the further support of public credit, which is ready for communication to the Senate.

This plan embraces a further provision for the subscribed debt; a provision for converting, with the consent of the creditors, the foreign into the domestic debt; a provision for augmenting the sinking fund, so as to render it commensurate with the entire debt of the United States; suggestions for giving effect to the act of the last session, granting a million of dollars for the purposes of foreign intercourse; with some auxiliary propositions.

With perfect respect, I have the honor to be,

Sir, your obedient servant,

ALEXANDER HAMILTON,
*Secretary of the Treasury.*

To the Vice-President of the United States
and President of the Senate.

TREASURY DEPARTMENT, January 20, 1795.

SIR:—Agreeably to the order of the Senate, I have the honor to transmit the plan for the support of public credit, announced in my letter of the 16th instant, together with sundry statements connected with it; and to be

Your most obedient and humble servant,

A. HAMILTON.

To the Vice-President of the United States
and President of the Senate.

The Secretary of the Treasury respectfully makes the following report to the Senate:

The President of the United States, with that provident concern for the public welfare which characterizes all his conduct, was pleased, in his speech to the two Houses of Congress, at the opening of the present session, to invite their attention to the adoption of a *definitive plan* for the *redemption* of the public debt, and to the consummation of *whatsoever may remain unfinished of our system of public credit*, in order to place that credit, as far as may be practicable, *on grounds which cannot be disturbed*, and to prevent *that progressive accumulation of debt, which must ultimately endanger* all government.

It was, at the same time, very justly intimated that the period which has elapsed since the commencement of our fiscal measures (now more than four years) has so far developed our resources as to open the way to the important work. And it is matter of solid consolation that the result, presenting a state of our finances prosperous beyond expectation, solicits the public councils to enter, with zeal and decision, upon measures commensurate with the greatness of the interests to be promoted.

Under the influence of this conviction, in conformity with the suggestions of the President, and pursuant to the duty which the constitution of the Department, as by law established, enjoins upon the Secretary of the Treasury, he has employed himself in digesting and preparing the materials of a plan for the attainment of the invaluable ends which are

recommended. And he now respectfully submits them to the consideration of Congress.

Toward a clear and distinct conception of the means necessary to the accomplishment of those ends, it will be useful, in the first place, to review what has been heretofore done. This will be presented under three heads:

I. The revenues which have been established;

II. The provisions for funding the debt, and for the payment of interest upon it;

III. The provisions for reimbursing and extinguishing the debt.

I. The revenues which have been established appear in the following acts:

1st. "An act for laying a duty on goods, wares, and merchandises imported into the United States," passed June the 1st, 1789. This act, as its title imports, lays various specific and ad-valorem rates on all articles (with exception of a few useful to agriculture and manufactures) imported from foreign countries. The lowest ad-valorem rate is five per cent., with a discount of ten per cent. in favor of our own bottoms. The duration assigned these duties was the end of the session of Congress next succeeding the first day of June, 1796.

2d. "An act imposing duties on tonnage," passed July 20, 1789.

This act lays various rates of duty on the tonnage of ships and vessels *entered* in the United States from foreign countries, and, in certain cases, in one part of the United States from another.

Its duration was indefinite, no limit having been assigned.

3d. "An act imposing duties on the tonnage of ships and vessels," passed July 20, 1790.

This act is a substitute for the one last mentioned, preserving the same rates of duty, but applying them, in some instances, differently. It is, like the former, of indefinite duration.

4th. "An act making further provision for the payment of the debts of the United States," passed August 10, 1790.

This act repeals, after the last of December, 1790, the duties on imported articles, laid by the act above cited, and substitutes new and generally increased rates, specific and ad-valorem.

The lowest ad-valorem rate in this, as in the former act, is five per cent.; but the number of articles to which it applies is much narrowed; and, instead of a discount in favor of our own bottoms, an addition of ten per cent. is made to the disadvantage of foreign bottoms.

The number of free articles is somewhat extended in further encouragement of agriculture and manufactures.

It is declared, that the duties laid by this act shall continue *till the debts and purposes for which they are appropriated shall be satisfied;* reserving, however, a right to Congress to *substitute* other duties or taxes of *equal* value.

5th. "An act to incorporate the subscribers to the Bank of the United States," passed the 25th of February, 1791.

The second section of this act authorizes the President to cause a subscription to be made to the stock of the bank, on account of the United States, to the amount of two millions of dollars; and, with a view to the accomplishment of that object, to borrow of the bank two millions of dollars, to be reimbursed in ten equal yearly instalments.

The difference between the interest payable on the loan and the dividends on the stock constitutes an item of annual income to the United States. It is unappropriated.

6th. "An act repealing, after the last day of June next, the duties heretofore laid upon *distilled spirits* imported from abroad, and laying others in their stead; and, also, upon spirits distilled within the United States, and for appropriating the same," passed the 3d of March, 1791.

This act, in conformity with its title, repeals, after June, 1791, the duties on imported spirits, laid by the act of the 10th of August, 1790, and establishes, in lieu of them, higher rates, namely, from twenty to forty cents per gallon, according to proof. It also lays duties, to commence at the same time, upon spirits distilled within the United States; namely, on those from *foreign* materials, from eleven to thirty cents, according to proof; on those from *domestic* materials, if distilled in cities, towns, or villages, from nine to twenty-five cents per gallon, according to proof; if distilled in other places, it imposes a yearly rate of sixty cents per gallon of the *capacity* of each still, with an option to the distiller to keep and render an account of the produce of his still,

and to pay nine cents per gallon of the quantity of spirits distilled therein.

These duties are appropriated, primarily, *in the same manner, and to the same purposes, as those laid on imported articles by the act of the 10th of August, 1790, and are to continue for the same time*, with the like reservation of a right to substitute other duties or taxes of equal value. There is a further appropriation, which will be noticed hereafter.

7th. "An act for raising a further sum of money for the protection of the frontiers, and for other purposes therein mentioned," passed May 2, 1792.

This act repeals, after June, 1792, the former duties on a number of imported articles, and establishes higher duties in their stead.

It extends, among other things, the duties on foreign distilled spirits, laying on those *made from grain*, twenty-eight to fifty cents per gallon; on others, twenty-five to forty-six cents per gallon. The *appropriation and duration* of these new duties are *conformable and coextensive with those repealed.* There is, likewise, an addition of two and a half per cent. to that class of duties ad valorem, which, before, was rated at five per cent.; but this additional duty is limited to the term of two years.

Out of the surplus of these duties, after satisfying the permanent appropriations, certain gross sums are appropriated for the service of the War Department.

8th. "An act concerning the duties on spirits distilled within the United States," passed May 8, 1792.

This act repeals, after the last day of June, 1792,

the former duties on spirits distilled within the United States, and on stills, and, instead of them, establishes lower duties, namely, on those made of *foreign* materials, from ten to twenty-five cents per gallon, according to proof; on those made of *domestic* materials, if in cities, towns, or villages, or at distilleries, where the stills, singly or together, are of the *capacity* of four hundred gallons, or upwards, from seven to eighteen cents per gallon of the spirits distilled, according to proof; if made in other places, or at distilleries where the stills are of inferior capacity, the yearly rate of fifty-four cents per gallon of the capacity of each still. A new option is given to the distiller, which is, instead of paying the yearly rate, to take out licenses for the monthly employment of his stills, paying, each time, ten cents per gallon of the capacity of each still.

These new duties are appropriated *in the same manner, and for the same purposes, and are to continue for the same time, as those for which they are substitutes:* and to *make good any deficiency* which may accrue from lowering the rates, *the surplus of the duty imposed* by the act of the second of the same month, is appropriated.

9th. "An act to promote the progress of useful arts, and to repeal the act heretofore made for that purpose," passed February 21, 1793.

This act ordains certain fees to be paid, by persons to whom patents are granted, for inventions, discoveries, or improvements, and *appropriates them to the purpose of defraying clerk hire in the Department of State.* Its duration is indefinite.

10th. "An act to establish the post-office and post-roads, within the United States," passed May 8, 1794.

This act establishes, to commence on the first of June following, various rates of postage on letters, and directs that the Postmaster shall render to the Treasury Department a quarterly account of receipts and expenditures, and shall pay, quarterly, into the Treasury, the balance in his hands.

The duration of this act is, also, indefinite. It contains no appropriation of the sums paid into the Treasury.

11th. "An act laying duties upon carriages for the conveyance of persons," passed June 5, 1794.

This act lays different rates of duty, from ten dollars down to one dollar, upon carriages *for the conveyance of persons*, kept by or for any person, for his or her own use, or to be let to hire, or for the conveying of passengers; and to guard against misapprehension, declares, that the duties shall *not be construed* to extend to any carriage *actually and chiefly employed in husbandry*, or for the *transporting* or *carrying of goods, wares, merchandise, produce, or commodities*.

The duration of the duties is limited to the end of the session of Congress which shall be next after the term of two years from the time of passing the act. It contains no appropriation.

12th. "An act laying duties on licenses for selling wines and foreign distilled spirituous liquors, by retail," passed June 5, 1794.

This act requires, that every retail dealer in wines,

shall take out a yearly license, and shall pay for it a duty of five dollars; and that every retail dealer in *foreign* distilled spirituous liquors shall also take out a yearly license, and pay for it a duty of five dollars. It defines a retail dealer in wines to be a person who deals in the selling of wines, *to be carried or sent out of the house, building, or place of his or her dwelling*, in less quantities at one time than thirty gallons, except in the original cask, case, box, or package in which it is imported. A retail dealer of spirituous liquors, to be a person who shall deal in the selling of *foreign* distilled spirituous liquors, *to be carried or sent out of the house, building, or place of his or her dwelling*, in less quantities than twenty gallons at one time. No difference is made between the dealer in several kinds of wines, or several kinds of foreign distilled liquors, and the dealer in one kind.

The same duration is assigned to this act, as to the one last cited. It is equally without an appropriation.

13th. "An act laying certain duties upon snuff and refined sugar," passed June 5, 1794.

This act lays a duty of eight cents per pound on all snuff which, after the 30th of September, 1794, should be manufactured within the United States, and of two cents per pound on all sugar which, after that day, should be refined within the United States. The remark made upon the two last recited acts is applicable to this, as to the duration of the duties, and the appropriation of their proceeds.

14th. "An act laying additional duties on goods, wares, and merchandises imported into the United States," passed June 7, 1794.

This act lays upon sundry enumerated articles, on their importation from foreign countries, certain specific and ad-valorem rates of duty, in addition to those before charged upon them, and adds, generally, a duty of two and a half per centum on all that class of articles which were before chargeable with seven and a half per centum ad valorem. It also prolongs the temporary two and a half per centum laid by the act of May 2, 1792, till the first of January, 1797, to which period the other duties laid by it are to continue. It contains no appropriation.

15th. "An act laying duties on property sold at auction," passed June 9, 1794.

This act lays a duty on sales at auction by persons licensed according to the laws of a State, or this act, prohibiting others from selling at auction, of one quarter per cent. of the purchase money arising from the sale of any right, interest, or estate in lands, tenements, or hereditaments, utensils in husbandry, farming stock, or ships and vessels, of one half per cent. of the purchase money arising from the sales of any other goods, chattels, rights, or credits.

The term of these duties is limited to the end of the session next after the expiration of two years from the time of passing the act, which also is without an appropriation.

But, by an act entitled "An act making appropriations for certain purposes therein expressed," passed the same 9th of June, 1794, certain specific sums, amounting together to 1,292,137 dollars 38 cents, are charged upon the proceeds of the revenues which are created by the five last-mentioned acts, and there

is a reservation made out of them of a sum sufficient to pay the interest of whatever moneys may be borrowed pursuant to the act entitled "An act making further provision for the expenses attending the intercourse of the United States with foreign nations," etc., passed the 20th of March, 1794, *which sum is pledged for the payment of that interest.*

These acts comprehend all the current revenues of the United States. Their product will appear hereafter.

In addition to them, a fund will be derived from the sale of the public lands in the Western territory. And there likewise occur, from time to time, payments into the Treasury on account of old debts; but these are too casual, and of too little magnitude, to be more than cursorily mentioned.

The lands in the Western territory, of which the Government of the United States has acquired the right of soil, are estimated, in a report of the late Secretary of State, to amount to 21,000,000 of acres. This quantity, at twenty cents per acre, the price upon former occasions contemplated, would yield a sum of $4,200,000. But it is believed that it would be unsafe to count upon so large a sum. Besides the uncertainty as to the proportion which may be of a salable quality, and as to the price which may be obtained for it, the boundary line between the United States and the Indians is understood to be unsettled with regard to a large part of the tract on which the computation is made. If it ultimately yields three millions of dollars it will probably equal every reasonable expectation.

II. The provisions for funding the debt, and for payment of interest upon it, are comprised in the following acts:

1st. "An act making provision for the debt of the United States," passed August 4, 1790.

This act, commonly called the funding act, contains these several provisions, viz.:

1. It reserves out of the proceeds of the duties on imports and tonnage for the support of the Government of the United States, and their common defence, the yearly sum of 600,000 dollars.

2. It appropriates *so much of the same proceeds as should be necessary* to the payment of interest on foreign loans before that time contracted, or which should afterward be contracted, for discharging the arrears of interest and the principal of antecedent foreign loans, to continue so appropriated till the debt created by those loans should be fully discharged.

3. It authorizes the President to borrow any sum or sums, not exceeding $12,000,000, to discharge the arrears of interest upon, and the instalments of the principal of, the foreign debt due and to grow due; and, *if to be effected on advantageous terms*, to pay off the whole of that debt; and further authorizes him to make such other contracts respecting it as should be found for the interest of the United States, so that no engagement or contract should preclude from reimbursing the sums borrowed, within fifteen years after they should be borrowed.

4. In order to adapt the form of the domestic debt to the then circumstances of the United States, as

far as should be found practicable, "*consistently with good faith and the rights of the creditors*, which, it truly declares, *could only be done by a voluntary loan on their part*," it proposes a loan to the United States (directing for that purpose books for subscriptions to be opened at the Treasury and by commissioners of loans in the several States on the 1st of October, 1790, and to continue for a year), the sums subscribed to the loan to be paid in certain enumerated evidences of the debt of the United States upon these terms, viz.:

*First.* That the interest unpaid on the principal of those evidences should be computed up to the last of December, 1790.

*Second.* That, for any sum subscribed and paid in the *principal* of the debt, the subscriber should be entitled to one certificate for a sum equal to two thirds of the sum subscribed, bearing an interest of six per cent. per annum, commencing the first day of January, 1791, *payable quarter yearly*, and subject to redemption by payments not exceeding, in one year, *on account of both principal and interest*, eight dollars upon a hundred of the *original sum* so subscribed and paid; and to another certificate for a sum equal to the remaining third of that sum, which, after the year 1800, should bear a like interest, payable in like manner, and subject to a like rate of redemption. But that the United States, *though having a right to redeem in the above-mentioned proportion, should not be obliged to do it.*

*Third.* That for any sum subscribed and paid in the *interest* of the debt, the subscriber should be en-

titled to a certificate for a sum equal to the sum subscribed, bearing an interest of three per cent. per annum, from the said last day of December, 1790, payable quarter yearly, and redeemable at pleasure, by payment of the principal.

*Fourth.* That the new stock created by the said loan should be *transferable on the books upon which the credit for it should stand by the proprietor or his attorney;* these books to be either those kept for the purpose at the Treasury, or by commissioners of loans in the respective States; a mode being provided for the transfer from the books at one place to those at another.

*Fifth.* That the interest should be payable wheresoever the credit for the stock should exist, when the payment of interest should become due; except that the dividend of interest for any quarter of a year, which should not be demanded before the expiration of a third quarter, should afterwards be demandable only at the Treasury.

*Sixth.* That, for the regular payment of the interest on the several kinds of stock to arise from the loan, as it should accrue, *including that which is deferred*, the proceeds of the public revenues, which, before that time, had been, or during the then session should be, provided, after *reserving, yearly, 600,000 dollars, for the support of the Government of the United States, and their common defence, and such sum as should be necessary for payment of interest on the foreign loans before mentioned*, should be, and thereby were, *pledged* and *appropriated*, till the final redemption of the capital stock.

5. Premising that some of the creditors of the United States might not *think fit* to become subscribers to the loan, this act declares that "*nothing contained in it should be construed in any wise to alter, abridge, or impair the rights of those creditors of the United States who should not subscribe to the loan* or the *contracts* upon which their respective claims are founded, *but that the said contracts* and rights should remain in full force and virtue." And to obviate all idea of compulsion on the creditors to subscribe, it allows to non-subscribers, during the pendency of the loan, and until the end of the year 1791, a rate per centum, on their respective demands, equal to that which is paid to subscribing creditors; on the sole condition, that the evidences of debt holden by them, except those which had been issued by the Register of the Treasury, for the registered debt, should be exchanged for other certificates, specifying the specie amount of those in exchange for which they were given, and otherwise of the like tenor with those which had theretofore been issued by the Register of the Treasury, for the registered debt; stating, as the grounds of this condition, that some of the certificates then in circulation had not been liquidated to specie value, that most of them were greatly subject to counterfeit, that counterfeits had actually taken place in numerous instances, and that embarrassment and imposition might attend the payment of interest on these certificates in their then form.

6. This act likewise proposes another loan, to the amount of $21,500,000, payable in the principal and

interest, indiscriminately, of the evidences of debt of the respective States, according to certain quotas, to be conducted in the same manner, and to be open for the same time, as that in the domestic debt of the United States. The terms of this loan to be:

*First.* That, for any sum subscribed, the subscriber should be entitled to one certificate, for a sum equal to four ninths of the subscribed sum, bearing an interest of six per centum per annum, commencing the first day of January, 1791; to another certificate, for a sum equal to two ninths of the said subscribed sum, bearing an interest, after the year 1800, of six per centum per annum; and to a third certificate, for a sum equal to three ninths of the said subscribed sum, bearing an interest of three per centum per annum, commencing on the same first day of January, 1791; the interest, in each case, to be payable in like manner, and to be subject to the like redemption, as that on the correspondent kinds of stock to be created by this, the said first-mentioned loan. And the stock to be created by this second loan to be *transferable* on the same principles, and in the same modes, as that produced by the former.

*Second.* That, for the regular payment of interest on the several kinds of stock to arise from this loan, as it should accrue, *including that which is deferred*, the proceeds of the public revenues, which, before that time, had been, or during the then session should be, provided, *after reserving the aforesaid yearly sum of $600,000, the sum necessary for payment of interest on the foreign loans made and to be made, and the sum*

*necessary for payment of interest on the loan in the domestic debt*, should be, and thereby were, pledged and appropriated; to continue so pledged and appropriated until the final redemption of the capital stock.

7. To secure the due application of these revenues, according to the appropriations, an account of them is directed to be kept, distinct from that of the proceeds of any other revenues, except such as should be raised to make good a deficiency in those; and the faith of the United States is pledged to appropriate additional and permanent funds for satisfying such deficiency.

8. The proceeds of the sales of lands in the Western territory, then belonging, or which thereafter should belong, to the United States, are pledged and appropriated for the discharge of the debts which the United States then owed, or by virtue of that act should owe.

There are several collateral and supplementary provisions, which are omitted, as immaterial to the intended view of the subject.

2d. "An act repealing, after the last day of June next, the duties heretofore laid upon distilled spirits," etc., passed the 3d of March, 1791.

The proceeds of the duties laid by this act are made subject to the same appropriations, and in the same order of priority, as those contained in the funding act; and, to secure their due application, an account is directed to be kept of them, distinct from that of any other revenues, except those appropriated by the funding act.

3d. "An act for raising a further sum of money for the protection of the frontiers," etc., passed May 2, 1792.

This act, which, as has been before noticed, increased permanently the duties on certain imported articles, and laid a temporary additional duty on some others, appropriates, primarily, the proceeds of the permanent augmentations in the same manner, and to the same purposes, as the antecedent duties were appropriated—that is, in conformity with the funding act.

4th. "An act concerning the duties on spirits distilled within the United States," passed May 8, 1792.

This act, which lowers the duties on spirits distilled within the United States, and on stills, appropriates the proceeds of the reduced duties in the same manner as were the former duties; and, to make good whatever deficiency might be occasioned by the reduction of the rates, pledges, as a substitute, the surplus of the augmented duties laid by the last-cited act.

5th. "An act providing for the payment of the second instalment due on a loan made of the Bank of the United States," passed June 4, 1794.

This act, in addition to a provision for paying that second instalment, appropriates so much of the dividends on the stock which the United States hold in the bank, as should be necessary to the payment of interest on the capital of a loan of $2,000,000, had of the bank, pursuant to the 11th section of the act by which it is incorporated. It also fixes the last day of December, in each year, as the annual period

for the payment of the successive instalments of that loan.

6th. "An act making provision for the payment of the interest on the balances due to certain States," upon a final settlement of accounts between the United States and the individual States, passed May 30, 1794.

This act directs that interest shall be allowed and computed on the balances to creditor States from the last of December, 1789, to the last of December, 1794; which, being placed to their credit respectively, shall bear an interest of three per centum per annum, from the period last mentioned.

It further directs that the interest on the principal balances, to be funded agreeably to the terms of the act for the settlement of accounts, together with the interest upon the arrears of interest, computed on those balances, and forming a new capital, shall be payable at the offices of the commissioners of loans within the States to which the balances are respectively due, and shall be paid quarter yearly, after the last day of December, 1794, at the same epochs in each year, at which interest is payable on the other parts of the funded debt; to which end, so much of the proceeds of the duties on imports and tonnage as may be necessary, *and as were not otherwise previously appropriated*, are appropriated; and the faith of the United States is pledged to provide for any deficiency which may happen by additional and permanent funds.

There are several acts which prolong, from time to time, the subscriptions in the domestic and State

debts, on the same terms as by the funding act, those in the domestic debt being continued down to the last day of December, 1794; which acts, together with the acts particularly cited, comprise all those that relate to the funding of the public debt, and the payment of interest thereupon. The result of these acts is exhibited in the tables A, B, C, and D, which show the amount of the foreign debt, that of the funded debt, the probable amount of that which remains unfunded, of what composed, and the annual amount of interest upon the different portions of debt, according to contract, and according to the plan of this report.

III. The provisions for reimbursing and redeeming the public debt are contained in the following acts, and are as follows, viz.:

1st. "An act making provision for the debt of the United States," passed the 4th of August, 1790.

This act, which is the one that regulates the funding of the debt, by the last section appropriates the proceeds of the sales of the lands in the Western territory, then belonging, or thereafter to belong, to the United States, to the sinking or discharging of the debts for which the United States then were, or by virtue of that act should be, holden, to be applied solely to that use, until they should be fully satisfied.

2d. "An act making provision for the reduction of the public debt," passed August 12, 1790.

This act, premising that it is desirable, by all just and proper means, to effect a reduction of the public

debt, and that the application of the surplus revenue to that object will not only contribute to this desirable end, but will be beneficial to the creditors of the United States, by raising the price of their stock, and be productive of considerable saving to the United States, enacts—

1. That the surplus of the duties on imports and tonnage, to the end of the year 1790, shall be applied to the *purchase* of the debt of the United States, at its market price, if not exceeding the par or true value thereof.

2. That the purchases to be made shall be conducted under the direction of the President of the Senate, the Chief-Justice, the Secretary of State, the Secretary of the Treasury, and the Attorney-General, who, or any three of whom, with the approbation of the President, are authorized to cause them to be made in such manner, and under such regulations, as shall appear to them best calculated to fulfil the intent of this act: *Provided that the same should be made openly, and with due regard to the equal benefit of the several States.*

3. That the accounts of the application of the fund should be settled as other public accounts, accompanied with returns of the amount of debt purchased, at the end of each quarter of a year; and that a full and exact report of the proceedings of the commissioners should be laid before Congress, within the first fourteen days of each session, including a statement of the disbursements and purchases, specifying the times when, prices at which, and persons of whom, the purchases were made.

4. That, in addition to this fund, the President should be authorized to borrow any sum or sums, not exceeding two millions of dollars, at an interest not exceeding five per centum, to be applied to purchases of public debt in like manner, and under the same direction and regulations, as the first-mentioned fund: *Provided that, out of the interest of the debt to be purchased, there should be appropriated, annually, a sum not exceeding eight per centum of the sums borrowed, towards paying the interest and reimbursing the principal of these sums.*

But to guard against the possibility of a deficiency of means to pay the interest on the debt which was to accrue in the year 1791, authority is given to reserve and apply to that purpose, out of the first-mentioned fund, as much as might be necessary to supply the defect of receipts, during that year, on account of the duties which should accrue after the year 1790.

3d. "An act repealing, after the last day of June next, the duties heretofore laid upon distilled spirits, etc.," passed the 3d of March, 1791.

This act appropriates whatever surplus may remain, from year to year, of the proceeds of the duties which it imposes, after satisfying prior appropriations, to the reduction of the public debt, unless such surplus shall be required for the current public exigencies, and, by *special* acts of Congress, shall be appropriated thereto.

4th. "An act supplementary to the act making provision for the reduction of the public debt," passed the 3d day of March, 1791.

This act declares that the terms of a loan of three millions of florins, obtained in Holland, bearing five per cent. interest, and four and a half per cent. for charges, and future loans on the same terms, should be deemed to be within the meaning of the act of the 12th of August, 1790.

5th. "An act supplementary to the act making provision for the debt of the United States," passed May 8, 1792.

This act makes provision for the payment of a debt due to certain foreign officers who had served the United States (the interest of which was, by stipulation, payable at Paris), out of the moneys authorized to be borrowed by the funding act. It also establishes a permanent sinking fund, to be composed—

1. Of the interest of the public debt purchased, redeemed, or paid into the Treasury, in satisfaction of any debt or demand.

2. Of the surplus, if any, which should remain of moneys appropriated for paying the interest of the public debt, after paying that interest.

This fund is to be applied, under the direction of the commissioners nominated in the act of the 12th of August, with the like approbation of the President—

*First.* To the *purchase* of the several species of stock constituting the debt of the United States, at their respective market prices, not exceeding the par or true value thereof, and, as nearly as may be, in equal proportions, *until the annual amount of the fund shall be equal to two per centum of the whole*

*amount of the outstanding funded stock, bearing a present interest of six per centum:* Thenceforth—

*Second.* To the *redemption* of that stock, according to the right reserved to the United States, *until the whole should be redeemed;* and, lastly, *after such redemption, to the purchase,* at its market price, of *any unredeemed debt* of the United States; which purchases are directed to be made at the lowest prices at which they can be effected by open purchase, or by receiving sealed proposals, to be opened in the presence of the commissioners, or persons authorized by them to make purchases, and of the persons making the proposals; and are to be accounted for at the Treasury, and reported to Congress, in the same manner as the purchases before authorized to be made.

6th. "An act making appropriation for the support of Government for the year 1793."

This act provides that the President of the United States shall cause so much of the loan made of the Bank of the United States, pursuant to the 11th section of the act of incorporation, to be paid off in sums not less than 50,000 dollars, as, in his opinion, the state of the Treasury may, from time to time, admit, out of any moneys which may be in the Treasury, having due regard to the exigencies of the Government and the appropriations made, and to be made, by law.

7th. "An act making provision for the payment of the first instalment due on a loan made of the Bank of the United States," passed March 2, 1793.

This act authorizes the payment of the first

instalment of a loan of two millions of dollars, had of the Bank of the United States, pursuant to the 11th section of the act by which it is incorporated, out of the moneys borrowed upon the authority of the act making provision for the reduction of the public debt.

8th. "An act providing for the payment of the second instalment, due on a loan made of the Bank of the United States," passed June 4, 1794.

This act authorizes the payment of that second instalment, out of the proceeds of any foreign loans before that time transferred to the United States. It makes other provisions which have been noticed under a preceding head.

These acts comprise all the provisions which have been made for reimbursing and redeeming the debt of the United States. The result to the last of December, 1794, is presented in the statement E.

There are two other acts which, though not falling properly under either of the foregoing heads, require, from their relation to the subject, to be brought into view:

1. An act relative to claims against the United States not barred by any act of limitation, and which have not been already adjusted, passed February 12, 1793.

This act directs that all claims of the description given in the title shall be presented at the Treasury for adjustment by the 1st of May, 1794, or shall be forever after barred; except those for *loan-office certificates, final settlements, indents of interest, Register's certificates, balances on the books of the Treasury,*

*loans of money in foreign countries, certificates issued under the act entitled "An act making provision for the debt of the United States."*

Such of the claims presented as cannot be admitted in the course of the Treasury are to be reported to Congress by the accounting officers.

Among the claims inadmissible in the ordinary course of the Treasury is a sum of 90,574 dollars of the bills of credit, commonly called new emission money.

2. An act making further provision for the expenses attending the intercourse of the United States with foreign nations, etc., passed March 20, 1794.

This act appropriates, in addition to former provisions, one million of dollars for the purposes mentioned in the title, to be paid out of any moneys which may be in the Treasury not otherwise appropriated, and to be applied under the direction of the President of the United States who is also authorized, if necessary, to borrow the whole or any part of the sum; but there is no special appropriation either for paying the interest or reimbursing the principal of the loan.

The act already quoted of the 9th of June, 1794, entitled "An act making appropriations for certain purposes therein expressed," with a view to remedy this defect, appropriates out of the proceeds of the taxes laid during the last session such sum as shall be sufficient to pay the interest on whatever moneys may be borrowed, pursuant to the act of March 20, 1794.

The foregoing review of the laws which constitute the fiscal system of the United States displays these prominent points as the leading features of that system:

1st. That all the current revenues of the United States are derived from these sources, to wit: IMPORTED ARTICLES; the TONNAGE of ships and vessels; SPIRITS distilled within the United States, and STILLS; the POSTAGE of letters; FEES ON PATENTS; DIVIDENDS of bank stock; SNUFF manufactured within the United States; SUGAR refined within the United States; SALES AT AUCTION; LICENSES to retail wines and distilled spirits; CARRIAGES for the conveyance of persons.

2d. That, of these revenues, the principal part of the duties on imported articles, those on the tonnage of ships and vessels, those on distilled spirits and stills, those on the postage of letters, patent fees, the dividends on bank stock, are permanent (the three first being commensurate with the existence of the debt for the payment of the interest of which they are pledged, the fourth and fifth having no limit assigned in the laws, and the last being commensurate with the duration of the property in the stock), all the others temporary; being limited to continue no longer than till the end of the session of Congress next after the expiration of two years from the respective times of passing the laws which established them, except the temporary duties on imports and tonnage, which are to continue till the 1st of January, 1797.

3d. That the permanent duties on imported art-

icles, the tonnage duties, the duties on spirits distilled within the United States, and on stills, are subject to these permanent dispositions:

1. To an annual reservation of 600,000 dollars, for the support of the Government of the United States and their common defence.

2. To an appropriation of so much as may be necessary to pay the interest on the foreign loans, provided for by the funding act.

3. To an appropriation of so much as may be necessary to pay the interest on the stock created by the loan in domestic debt, or more properly in the original debt of the United States.

4. To an appropriation of so much as may be necessary to discharge the interest on the stock created by the loan in the debts of the respective States.

5. To an appropriation of so much as may be necessary to pay the interest on the balances due to creditor States, which dispositions establish *priorities*, according to the order in which they are here enumerated.

4th. That the surplus, if any, of the duties on spirits distilled within the United States, and on stills, has an ultimate appropriation, that is, to the reduction of the public debt, *but that the surpluses of the other duties have no such ultimate appropriation.*

5th. That the duties on the postage of letters, and the net dividend on bank stock, have *no permanent or particular appropriation.*

6th. That the temporary duties *are charged* with

a specific sum of 1,292,137 dollars and 38 cents; and with the payment of *interest on a sum of* 1,000,000 *of dollars, authorized to be borrowed for the expenses of foreign intercourse.*

7th. That the whole of the foreign debt, and all that part of the domestic debt, being now nearly the whole, which consists of the stock created by the loans in the original debt of the United States, and in the particular debts of the several States, and by the balances due to creditor States, are *bottomed on certain specified revenues, pledged* or *hypothecated* for the payment of the *interest* upon them; and *thus* constitute the FUNDED DEBT of the United States.

8th. That the funded DOMESTIC debt of the United States consists of three species of stock, one bearing a present interest of six per cent. per annum; another bearing a like interest after the year 1800; a third bearing a present interest of three per centum per annum: *the interest in each case payable quarter yearly.*

9th. That the six per cent. stock, present and deferred, can be redeemed in no greater proportion than at the rate of eight per centum per annum of the *original* sum, on account both of principal and interest; but the three per cent. stock is redeemable at pleasure.

10th. That the provision for subscribing to the loan in domestic debt expired on the last of December, 1794, and that *no further provision* has been made for the unsubscribed residue.

11th. That the funding act *expressly confirms the contracts and rights* of the creditors of the United

States, who shall not *think fit to subscribe to the loan*, and gives an *expectation* to them of *further* and *other* arrangements, upon the event of the propositions made to them.

12th. That the proceeds of all the lands of the United States in the Western territory are appropriated to the redemption of all that part of the public debt for which, *prior to the funding act*, or by *virtue thereof*, the United States were or are liable.

13th. That, in addition to this, a regular SINKING FUND has been successively constituted, to be applied under the direction of five principal officers of the United States, with the approbation of the President, hitherto composed of three parts: 1st. The surplus of the duties on imports and tonnage to the end of 1790. 2dly. The proceeds of loans not exceeding two millions of dollars, authorized to be borrowed for the purpose (these two funds to be invested in purchases); and 3dly (in which the two former resolve themselves), the interest on the public debt, *purchased*, *redeemed*, or *paid* into the Treasury, together with the surpluses, if any, of the moneys appropriated for interest, to be applied first to *purchases* of the debt *till* the fund is equal to two per centum of the *outstanding stock*, *bearing* a present interest of six per cent.; second to the redemption of that stock; and lastly, to purchases of any unredeemed residue of the public debt. But there is *reserved out of this fund a sum not exceeding eight per centum per annum*, toward the payment of interest and reimbursing of the principal of the loans made for purchases of the debt.

To this recapitulation of the leading features of our fiscal system, it may be useful to add a summary exhibition of certain results, which appear more in detail, or are deducible from the tables or statements annexed to this report.

The particulars and amount of the debt of the United States, are as follow:

| | | |
|---|---|---|
| Foreign debt, as per statements B and C . . | $14,599,129 35 | |
| Deduct instalment of foreign debt in the year 1795, to be paid out of proceeds of foreign loans . . . . | 853,750 00 | |
| | | $13,745,379 35 |
| Funded domestic debt, viz.: | | |
| 1. Arising from original domestic debt, subscribed to loan proposed by funding act: | | |
| Stock bearing a present interest of six per cent. | $17,912,138 01 | |
| Stock bearing a future interest of ditto . . | 8,538,228 97 | |
| Stock bearing an interest of three per cent. . | 12,275,347 55 | |
| 2. Arising from State debts assumed: | | |
| Stock bearing a present interest of six per cent. | 7,908,374 19 | |
| Stock bearing a future interest of ditto . . | 3,940,608 96 | |
| Carried forward . | $50,574,697 68 | $13,745,379 35 |

| | | |
|---|---|---|
| Brought forward . | $50,574,697 68 | $13,745,379 35 |
| Stock bearing an interest of three per cent. . | 5,944,115 70 | |
| 3. Arising from balances to creditor States: | | |
| Stock bearing a present interest of six per cent. | 2,345,056 00 | |
| Stock bearing a future interest of ditto . . | 1,172,528 00 | |
| Stock bearing an interest of three per cent. . | 703,516 80 | |
| | | $60,789,914 18 |
| Unsubscribed debt, viz.: | | |
| Principal, exclusive of loan-office certificates, bearing interest on nominal value . . | $1,072,583 40 | |
| Interest thereupon, including indents . . | 452,826 74 | |
| Principal of loan-office certificates, bearing interest on nominal sum . | 27,935 00 | |
| Interest thereon . . | 7,830 00 | |
| | | $1,561,175 14 |
| Total unredeemed debt, | | $76,096,468 67 |

This is exclusive of a sum of $1,400,000 due to the Bank of the United States, on account of the loan of $2,000,000 had of that institution, pursuant to the eleventh section of the act by which it is incorporated, and which is not included in the mass of the debt, because it is more than counterbalanced by a greater value in stock. It is also exclusive of

those loans which are temporary anticipations of the revenue.

The particulars and amount of the annual current revenues of the United States, are as follows:

| | | |
|---|---|---|
| APPROPRIATED. PERMANENT. | | |
| Duties on imports and tonnage, domestic . . | $4,199,791 67 | |
| Duties on distilled spirits and stills . . . | 400,000 00 | |
| Fees in patents . . . | 660 00 | |
| UNAPPROPRIATED. | | |
| Postage of letters . . | 29,722 16 | |
| Surplus dividends on bank stock . . . . . | 62,500 00 | |
| | | $4,692,673 83 |
| TEMPORARY. | | |
| Temporary duties on imports . . . . | $1,479,626 91 | |
| INTERNAL. | | |
| Duties on snuff, refined sugar, sales at auction, licenses to retail spirits and wines, carriages for conveyance of persons . | 380,000 00 | |
| | | $1,859,626 91 |
| Total annual current revenue, | | $6,552,300 74 |

The particulars and amount of the annual stated expenditure of the United States, computing the army and navy establishments on the scale of an Indian and Algerine war, are as follows:

| | |
|---|---|
| Interest on the foreign debt . . . | $638,480 58 |
| Interest on domestic funded debt . . | 2,339,241 50 |
| Interest on unfunded debt . . . | 66,031 10 |
| Interest on temporary loans . . . | 100,000 00 |
| Expenses of the civil Government, including foreign intercourse . . . | 475,249 53 |
| Expenses of military land service . . | 1,511,975 29 |
| Expenses of military naval service . . | 441,508 80 |
| Miscellany . . . . . | 109,357 04 |
| Total annual expenditure, | $5,681,843 84 |

This sum is liable to be increased by the interest which will begin to accrue on the deferred stock the first of January, 1801; being, on the present amount of that stock, 871,401 dollars and 92 cents.

The annual force of the sinking fund, as depending on ascertained funds, may be stated as follows:

| | |
|---|---|
| Interest for a year, on sums already carried to its credit . . . . . | $68,225 55 |
| Interest for a year, on debts of foreign officers, in a course of payment, including arrears of interest to be carried to the credit of this fund . . . . . | 13,439 49 |
| Interest for a year, on the unexpended surplus of the revenues at the end of the year 1790, being 411,659 dollars 49 cents, supposing this to be invested, by purchase, in an equal sum of present six-per-cent. stock . . . . . | 24,699 56 |
| | $106,364 60 |

It is further liable to be increased by an investment in purchases of 865,098 dollars 11 cents, which,

together with the sums from that source already invested in purchases and payments will amount to 2,000,000 of dollars, the sum authorized to be borrowed for purchases of the debt.

But, as this auxiliary depends on an operation, not only future, but, in some degree, casual, it cannot be taken into an estimate of the actual strength of the fund.

The proceeds of the sales of Western lands must also be considered as an eventual resource.

There are other contingent sources of augmentation, not computed, because they are contingent. But, on the other hand, the fund is liable to be reduced by a sum reserved out of it for the payment of principal and interest, of the two millions authorized to be borrowed for purchases not exceeding eight per centum per annum.

The sum applicable, in the first instance, to the redemption of that portion of the funded debt which bears a present interest of six per centum, excluding that standing to the credit of the commissioners of the sinking fund, is as follows:

| | |
|---|---|
| Of transferable stock . . . . . | $516,410 24 |
| Of untransferable stock, arising from balances to creditor States . . . | 46,901 12 |
| | $563,311 36 |

The sum applicable, in the first instance, that is, on the 1st day of January, 1802, to the redemption of that portion of the funded debt, now called deferred stock, excluding that standing to the credit

of the commissioners of the sinking fund, will be as follows:

| | |
|---|---|
| Of transferable stock . . . . . | $249,576 75 |
| Of untransferable stock, arising from balances to creditor States . . . | 23,450 56 |
| | $273,027 31 |

These sums would complete the redemption of the whole amount of the stock to which they are applicable, within twenty-three years after the redemption in each case was begun; within which terms they would discharge the whole of the public debt, except the foreign debt, the unsubscribed debt, and the three-per-cent. stock.

If the redemption of the present six-per-cent. stock commence the first of January, 1796, and the redeeming fund be commensurate with the whole of the unredeemed stock bearing a present interest of six per cent. and *transferable*, the revenue set free in the year 1818, for operations upon the residue of the debt, will be 2,039,394 dollars 36 cents.

If the redemption of the deferred debt commence the first of January, 1802, when it may rightfully commence, and the redeeming fund be commensurate with the whole of that stock, *unredeemed* and *transferable*, the revenue set free in the year 1824, for operations upon the residue of the public debt, if any remain, will be $998,307 02.

The revenue set free by these successive redemptions would be sufficient to redeem the whole of the present foreign debt in six years; that is, within a

term of twenty-eight years from the proposed time for commencing the redemption, or the 1st of January, 1796; and, after extinguishing the foreign debt, would more than discharge the whole of the balances to creditor States, and the whole of the unfunded debt in two years more.

If the proceeds of the lands in the Western territory should be equal to three million of dollars, and the three-per-cent. stock can be purchased at an average of twelve shillings in the pound, that fund would suffice to pay off the principal of the three-per-cent. stock, in something more than twenty-five years.

It follows that, if the force of the sinking fund be rendered equal, exclusive of the proceeds of the sales of Western lands, to the redemption of the present unredeemed transferable stock, commencing the 1st of January, 1796, as to that bearing a present interest of six per centum, and the 1st of January, 1802, as to that bearing a future interest of six per centum; and if the proceeds of the sales of Western lands should prove equal to three million of dollars, and can be brought into action for purchases of the three-per-cent. stock, at the rate above mentioned, at any time before the year 1801, the whole of the present debt of the United States, foreign and domestic (the funds appropriated being, during the whole period, adequate in productiveness, and inviolably applied), would be extinguished in thirty years. And there would then revert to the United States an annual income of 4,435,320 dollars and 89 cents. Some auxiliary provisions,

which will be proposed, may greatly accelerate that result.[1]

On the basis of the foregoing data, the Secretary of the Treasury proceeds to submit to the consideration of Congress certain propositions which appear to him necessary to be adopted to complete our system of public credit. These will be followed by some explanatory remarks.

## I. Proposition

That further provision be made, with regard to the yet *unsubscribed* debt of the United States, as follows:

1st. Further time to be given, until the end of the year 1795, to subscribe the same to the loan proposed by the funding act; with liberty to the holders to subscribe the arrears of interest up to that period separately from the principal, reserving that principal on its original footing.

2d. An appropriation to be made for payment of interest on so much of the principal (excepting loan-office certificates bearing interest on the nominal value) as, at the year 1795, shall remain unsubscribed, *for the term of one year*, according to the rate or rates stipulated by the original contracts, and for the payment of ten per centum of the arrears of interest thereupon, to the same end of the year 1795. This payment to be made on the 1st of January,

[1] These results are not stated with fractional correctness, because it is not necessary to a satisfactory conclusion, and the minuteness of the calculation would have demanded more time than can conveniently be spared.

1796, at the Treasury, where no *particular place* of payment is stipulated, and at where there is one.

3d. The *specie principal* of the loan-office certificates, which bear interest on the nominal value, together with the arrears of interest, to be immediately paid off.

### II. Proposition

That provision be made for taking, upon loan to the United States, by subscription at the Treasury, the *outstanding* and *unbarred* new emission bills of credit, the sums subscribed to be paid in the principal only of those bills, and the stock of the new loan to bear an interest of five per cent. per annum, payable quarter yearly at the Treasury, and redeemable at the pleasure of the United States by payment of the principal, with a stipulation to pay the same at the expiration of thirty years. The loan to be deemed to commence on the 1st of January, 1796, and to rest on funds permanently pledged, namely, the permanent revenues.

### III. Proposition

That provision be made for converting, by a new loan, the whole of our present foreign into domestic debt, upon these terms, to wit: that, for any sum subscribed to the new loan, and paid in the principal of the present foreign debt of the United States, there be allowed, in addition to the interest now payable upon such principal, the further yearly interest

of one half per centum, or, in lieu thereof, at the option of each subscriber, an equivalent sum in capital stock, bearing an interest of five per centum per annum. That the whole interest upon the new loan, including that upon the capital stock, to be given as an equivalent for the additional one half per cent., shall remain fixed until the first day of January, 1818, at which time, and not sooner, the principal of the said new loan, including the said capital stock given as an equivalent, may and shall be reimbursed, except as to such subscribers as may prefer a shorter term of reimbursement, who may elect any term not less than fifteen years. That the permanent revenues shall be and remain firmly pledged for the payment of the said interest, until the reimbursement of the said principal, to be paid quarter yearly, as that of the present funded domestic debt. And, lastly, that the commissioners of the sinking fund be empowered, with the approbation of the President, to provide, by new loans, for the reimbursement of any instalment or part of principal of the present foreign debt, or of the loan to be made thereupon, as aforesaid, either by direct borrowing or by sale in the market, of certificates of stock, so as the said loan or the said certificates of stock shall bear an interest not exceeding six per centum per annum, and shall be liable to reimbursement within a term not exceeding twenty-four years. The interest upon the capital reimbursed, and, in aid thereof, the permanent revenues, to be pledged for the interest upon the loans or stock to be made or created by virtue of the said power.

### IV. Proposition

That the temporary duties on imports be made coextensive, in duration, with those now permanent, and be appropriated in like manner; and that the reservation of 600,000 dollars, annually, out of the duties on imports and tonnage, for the support of the Government of the United States, and their common defence, be postponed till after the appropriations for the interest of the funded debt, foreign and domestic, and for the SINKING FUND.

### V. Proposition

That the following provisions be added to those heretofore made, for reimbursing and redeeming the debt of the United States:

1st. To direct, by law, that so much of the surplus of the duties on imports and tonnage, to the end of the year 1790, as shall remain uninvested in purchases, on the 1st day of January, 1796, shall be so invested, one fourth part within the month of April, another fourth part within the month of July, another fourth part within the month of October, in that year, and the remainder within the month of January, 1797.

2d. To exonerate the FUND established by the act, entitled "An act supplementary to the act making provision for the debt of the United States," passed the 8th of May, 1792, from the payment of the rate, per annum, which by the 4th section of the act of the 12th of August, 1790, entitled "An act making provision for the reduction of the public debt," is

reserved, on account of the principal and interest of the moneys authorized, by that act, to be borrowed for purchases of the debt; charging the interest of the moneys so borrowed, upon the revenue from imports and tonnage.

3d. To appropriate to the SAME FUND, *so much* of the revenue from imports and tonnage, as, *together with the other moneys now constituting the fund, and which shall accrue to it by virtue of the foregoing provisions*, shall be sufficient, *from year to year*, with the interest redeemed, to pay the sums which may, of right, be annually paid on account of the principal of such funded stock, as, on the 1st day of January, 1796, shall bear a present interest of 6 per centum per annum, excluding that which shall stand to the credit of the commissioners of the sinking fund, and that which shall stand to the credit of particular States, on account of the balances reported in their favor by the commissioners for settling accounts between the United States and individual States; to continue so appropriated until the whole of the said funded stock shall be redeemed, and, thenceforth, until the whole residue of the present debt of the United States, foreign and domestic, funded and unfunded, shall be redeemed or discharged.

4th. To appropriate to the SAME FUND, the *dividends* on the stock of the Bank of the United States belonging to the United States, reserving, from time to time, *so much thereof* as may be necessary to pay *interest on what shall remain unpaid* of the loan had of the said bank, pursuant to the second section of the act of incorporation, and, also, *so much* of the

duties on imports and tonnage as, *together with those dividends* (deducting what may be necessary to pay interest), shall be sufficient, from year to year, to pay off the instalments of the said loan, hereafter to grow due, and as (the said instalments being paid), *together with any other moneys which on the 1st day of January, 1802, may belong to the said fund not otherwise appropriated*, shall be sufficient, *from year to year*, with the interest redeemed, to pay the sums which may, of right, be annually paid on account of the principal of such funded stock, as, at the expiration of the year 1800, shall begin to bear an interest of six per cent. per annum, excluding that which shall stand to the credit of the commissioners of the SINKING FUND, and that which shall stand to the credit of particular States, on account of the balances reported in their favor, by the commissioners for settling accounts between the United States and individual States; to continue so appropriated, until, as well the last mentioned stock, as the instalments of the loan aforesaid, shall be fully redeemed and discharged, and, thenceforth, until the whole residue of the present debt of the United States, foreign and domestic, funded and unfunded, shall be redeemed and discharged.

5th. To continue the appropriation to the SAME FUND, of the *interest* of the stock which shall be redeemed by virtue of the foregoing provisions (when the full redemption in each case is completed), until the WHOLE of the PRESENT DEBT of the United States, foreign and domestic, funded and unfunded, shall be redeemed, by reimbursement, purchase, or otherwise.

6th. To provide for carrying to the SAME FUND, agreeably to the appropriation in the funding act, the proceeds of the sales of the lands of the United States in the Western territory, to be applied according to the said appropriation.

7th. To appropriate to the SAME FUND, to be employed for the purposes thereof, all moneys which shall be received for debts due to the United States, antecedent to the present constitution.

8th. To provide that the surpluses of all the current revenues of the United States, which shall remain at the end of any calendar year, beyond the amount of the appropriations charged upon them, and which, during the session of Congress, commencing next thereafter shall not be otherwise specially appropriated or reserved, shall be carried to the FUND AFORESAID, to be applied to the purposes thereof.

9th. To provide for paying annually, out of the SAID FUND, the sum which may be rightfully paid in each year, toward the redemption of the funded stock, which does or shall bear an interest of six per centum per annum, excluding that which shall stand to the credit of the commissioners of the sinking fund, and that which shall stand to the credit of particular States on account of the balances reported in their favor by the commissioners for settling accounts between the United States and individual States, commencing the redemption of that bearing a present interest on the first of January, 1796, and of that to bear interest after the year 1800 on the first of January, 1802, and pledging, in the firmest

manner, the faith of the United States to the creditors thereof, that the SAID FUND shall be inviolably applied to the purpose of redeeming the stock aforesaid, and afterward to the redemption of the whole of the PRESENT DEBT of the United States, foreign and domestic, funded and unfunded, until the whole shall be fully redeemed and discharged, and to be vested in the commissioners of the sinking fund, as property in trust for the creditors, until the redemption of the whole of the present debt of the United States shall be completed.

Provided, always, that whenever THE FUND shall be more than sufficient for paying off, as they accrue, the remaining instalments of the said loan had of the Bank of the United States, and for the complete and final redemption of the whole of the aforesaid stock, bearing and to bear an interest of six per cent. according to the right reserved for that purpose, and also for the payment of the instalments of the present foreign debt, or of such new loans as may be made thereupon, pursuant to the third proposition, and for the reimbursement, purchase, or redemption of the residue of the present debt of the United States, within the term of thirty years, it shall be lawful for Congress, if at war with any foreign European Power, to apply so much of the excess as they may think fit, the said excess being certified by the COMMISSIONERS OF THE SINKING FUND, toward the expenses of such war; excepting always so much of the said excess as may be requisite to fulfil any contracts which shall have been entered into by the commissioners of the sinking fund, pursuant to the

powers vested in them; and provided that no *second* appropriation of any such *excess* shall derogate from the fund *once reserved* for the redemption or purchase of the said residue of the debt, within the said term of thirty years.

10th. To provide that all reimbursements of the capital of the public debt, foreign and domestic, and of the remaining instalments of the aforesaid loan of the Bank of the United States, be made under the superintendence of the commissioners of the sinking fund, empowering them, with the approbation of the President of the United States, as the instalments of principal become due, to borrow, if necessary, the sums requisite to pay those instalments. Provided, that the ultimate term for the reimbursement of any loan they may make shall not exceed twenty-four years; the interest thereof to be charged—first, upon the interest of the instalments which shall be reimbursed by means thereof, except the instalments of funded six-per-cent. stock; secondly, upon the revenue from imports and tonnage, to make good any deficiency.

### VI. Proposition

That power be given to the commissioners of the sinking fund, with the approbation of the President, to borrow, from time to time, such sums as may be necessary in anticipation of the revenues appropriated for the purpose, not exceeding in one year one million of dollars, to be reimbursed within a year from the time of each loan, for the payment of the interest which shall annually accrue on the public debt.

The interest upon each loan to be defrayed out of the permanent revenues.

### VII. Proposition

That the internal revenues from snuff and refined sugar, sales at auction, licenses to sell by retail foreign distilled spirits and wines, carriages for the conveyance of persons, be continued to the first day of January, 1800, and that the reimbursement of the principal of the loan of one million dollars, authorized to be borrowed for defraying the expenses of foreign intercourse, be charged upon this fund.

### VIII. Proposition

That, in regard to any sum which shall have remained *unexpended* upon any appropriations other than for the payment of the interest of the funded debt and for the purposes of the sinking fund for more than two years after the end of the calendar year in which the act of appropriation shall have been passed, such appropriation shall be deemed to cease and determine—and the sum expended upon it shall be carried to an account to be denominated "THE SURPLUS FUND." But no appropriation shall be so deemed to have ceased or determined till after the year 1795, unless it shall appear to the Secretary of the Treasury that the object of such appropriation has been fully satisfied; in which case it shall be lawful for him to cause to be carried the unexpended residue thereof to the account aforesaid.

### IX. Proposition

That provision be made that all priorities heretofore established in the appropriations for the funded debt, as between the different parts of said debt, shall, after the year 1796, cease with respect to all creditors of the United States who do not, before the expiration of the period, signify their dissent therefrom; and that thenceforth, with the exception only of the debts of those creditors who shall so signify their dissent, the revenues charged with these appropriations shall constitute a common or consolidated fund, chargeable indiscriminately and without priority.

### X. Proposition

That provision be made for calling in all outstanding loan-office certificates, certificates called final settlements, and indents of interest, and for issuing in lieu of them other certificates of equivalent tenor, establishing that all which shall not be presented for exchange within the term of two years shall be barred.

### *Remarks upon the First Proposition*

The experiment has now been fully tried, and with nearly complete success, of the disposition of the public creditors to accept the terms offered by the funding act. Those who still decline have probably made a final election to abide by their original contracts.

It remains to fulfil them. This, the moral obliga-

tion of the contracts, the new and peremptory sanction given to them by the present Government, and the essential maxims of public credit, unite to demand; and, while these cogent motives, affecting intimately the permanent character and general interest of the United States, recommend the measure, there is now no longer any momentary inducement, from situation, to procrastinate.

The present advanced state of the national finances, and the inconsiderable magnitude of the still unsubscribed debt, render it of little, if any, consequence to obtain upon it the temporary accommodation of deferring the payment of a part of the interest *accruing* according to contract. This motive apart, and considering the approximation of the period when the payment of interest on the deferred debt is to commence, the chance of benefiting by a fall of the market rate of interest, incident to a provision for the debt on the terms of the contract, which make it redeemable at pleasure, may be found more advantageous to the Government, than the partial postponement of interest encumbered with an abridgment of the right of redemption.

To those who should not rightly appreciate this circumstance, it might seem an objection, that the provision proposed would place those creditors who had not consented to accommodate the Government, upon a better footing than those who had so consented.

But a scruple of this kind is overruled by several considerations.

1st. It is not improbable that a considerable pro-

portion of those who may not have accepted the terms offered by the funding act, are executors and other trustees, who may have doubted their power to accept.

2d. Giving the fullest force to the fact which is the ground of the objection, it is one of those cases in which the general principles that constitute the permanent happiness of society, give the less meritorious advantages over the more meritorious. All the creditors had a right to conform, or not. Those who have not done it have only used their right, and it cannot be matter of objection or prejudice to them. To delay indefinitely a provision for their claims, according to contract, is to annihilate the contract.

The complying creditors cannot with propriety complain. They were informed unequivocally that the proposal of a new loan was referred to their free choice; that the rights of those who did not assent would remain unimpaired; and compensations were offered in the new contracts for the surrender of the old. A plea that an ultimate provision was not relied upon could not be admitted, because it would be to convert a distrust of the faith of the Government into an argument against its being observed towards those who had depended upon it.

But the complying creditors actually received valuable considerations for the modification of their claims, instead of *annual* provision for their interest, which alone their contracts, as they stood previous to the funding act, required; they have had it secured by *adequate funds permanently mortgaged* for its payment.

Instead of the stipulated annuity being *redeemable at pleasure*, whenever a fall in the market rate of interest should render it advantageous to pay off the principal, it has acquired a more *fixed* character by the relinquishment of the right of the Government to redeem, except in certain proportions, and a capacity to increase in capital value, by a declension of the market rate of interest.

Instead of receiving their interest in one payment, at the end of a year, they receive it in quarter-yearly portions, which makes it, in fact, 6.15 per cent. in lieu of the stipulated rate of six per centum.

On the first point it has been argued that, supposing a steady preservation of its faith by the Government, it is indifferent to the creditor whether his demand stands upon the basis of an annual provision, or upon that of mortgaged funds.

This is to substitute theory to fact. As well with regard to a government as to an individual, there is, in the nature of things, an *intrinsic* difference between the value of a debt bottomed on mortgaged funds, and that of a debt resting on what is called, in the one case, and may be called in the other, personal security. The degree of this difference, and some of the circumstances on which it depends, may be different in the two cases, but the reality of its existence can be denied in neither.

Government, being administered by men, is naturally, like individuals, subject to particular impulses, passions, prejudices, vices; of course to inconstancy of views and mutability of conduct.

A kind of property, of which the essence is contract, must necessarily, therefore, be more or less valuable, because more or less secure, in proportion as it is little or much exposed to the influence of that inconstancy or that mutability.

If a provision is to be made by a new resolution every year, that resolution, being always liable to be affected by momentary circumstances, is always casual.

If made once for all, it continues, of course, unless revoked by some positive act, and has for that reason a moral certainty of stability.

But why, it might be asked, if a disposition unfaithful to the public engagements, or unfriendly to the public credit, should exist, would it not operate to produce a violation of a provision made, as well as to prevent the making of one?

The two things are widely different. To *undo*, which is to *act*, and in such a case *to act with violence*, requires more enterprise and vigor, and presupposes greater energy, or a stronger impulse, than *not to do* or to forbear to act. This is particularly true where a number of wills is to concur. Many men who will not rouse to the effort, or encounter the responsibility of doing mischief by positive acts, will readily enough slide into it by a negative conduct — that is, by omitting to act. Many men, merely from easiness of temper or want of active fortitude, will suffer evil to take place which they neither desire nor would themselves commit. In collective bodies, *votes* are necessary to ACTION: absences may produce INACTION. It often

happens that a majority of voices could not be had to a resolution to undo or reverse a thing once done, which there would not be a majority of voices *to do*.

This reasoning acquires tenfold force when applied to a complex government like ours; that is, to a government distributed into departments, acting through different organs, which must concur to give it motion; as, in our Constitution, the HOUSE OF REPRESENTATIVES, the SENATE, and the PRESIDENT.

In delicate and difficult cases, whether to issue in good or ill, a suspension of action is far more natural to such a government than action.

It can hardly happen that all the branches or parts of it can be infected at one time with a common passion, or disposition, so manifestly inimical to justice and the public good, as to prostrate the public credit, by revoking a pledge, given to the creditors. It is far more probable that such a disposition should, at one time, possess one part, at another time, another part. Possessing either part, it might be sufficient to obstruct a provision which was to be made. Without possessing all the parts, it could not subvert one which had been made. The last can scarcely be supposed, except in one of those extraordinary crises of nations which confound all ordinary calculations.

Hence the value of property in public debt, which rests on specified and competent funds, firmly pledged for the satisfaction of the creditor, is intrinsically greater, and to a considerable extent,

than that of property in public debt, which depends on annual provision. Hence, too, a creditor to whom such a pledge was not stipulated, may be justly said to have received a compensation for the relinquishment of a portion of his interest.

On the second point, it has been observed, with less plausibility, that, in this country, where it would be to the advantage of the creditor to receive his principal, rather than a rate of six-per-cent. interest, the abridgment of the right of redemption is of no value.

1st. The proposition is not universally true.

It depends on the particular situation of a creditor, whether it be his interest to be reimbursed his principal or not. It is believed, owing to the impunctuality of collections, that in no part of the United States does fair lending at private interest, upon real security, net six per cent.

2d. As far as it is true, it does not authorize the inference which is drawn, because the creditor cannot demand his principal when it suits him, but must wait till it is convenient for the Government to pay. This convenience might not exist till there was a fall in the market rate of interest, and then it would not be the interest of the creditor to receive.

Unable to exact the principal when he pleases, it is a material point gained to be able to arrest the hand of the Government from paying him when it is his interest not to receive. It is evident, that whenever the rate of interest to which he is entitled shall exceed the market rate, if he cannot be obliged to receive back his principal, or take the market

rate, his stock must rise in value in proportion to the difference and degree of its duration.

Nor is an idea which has been entertained just, that this advantage is remote and contingent, to accrue only to those who may be holders at the time of the fall of interest, at the expense of those who were holders when the funding act passed, many of whom, as it is alleged, being obliged to alienate then or shortly after, suffered loss in the sale, from the postponement of a part of their interest, without benefiting by the supposed equivalents.

The fairness of an equivalent ought never to be tested by the necessities of particular individuals. It ought to be estimated by the general principles of value; by the natural and real operation of things. Admitting, therefore, the suggestion, as to such individuals, to be true, it would decide nothing.

But it is not true. The permanency of a high rate of interest, and the possibility of a future rise of the capital above par, by the fall of the market rate below the stipulated rate, were, to the first holders of stock, circumstances of present value.

Foreigners, especially, whose purchases would necessarily influence the market, would give higher prices for it on these accounts.

And when to this are added the *funding* of the new stock and the payment of the interest *quarter yearly*, there is solid ground for entertaining an opinion that the stock has, from the earliest period, borne a better price in the market than upon the principle of an *annual* payment of six per cent.

on the whole capital depending upon an *annual* provision.

This opinion would be confirmed, if we should take as a guide what actually happened in one or more of the States which made annual provision for the payment of interest upon their debts, at the stipulated rate of six per cent. With this provision the market price of their stock rarely exceeded thirty-three and one third per centum.

It is probable that greater confidence in the ability and constancy of views of the Government of the United States might have given a greater value to their stock in a like situation. But it is not to be doubted that it would have felt, in a great degree, a similar effect of that situation.

This may not appear with respect to the small amount of unsubscribed debt, now to be provided for, and with the advantage of a confirmation of confidence by experience; but it could not have failed to have been very apparent, if the whole debt had been provided for on this plan.

These observations serve to render it probable that the creditors who have accepted the terms offered by the Government have not been injured by the acceptance; that, if they had now an option to change their ground for that which is now proposed for non-subscribers, it would be an ill-judged choice in them to do it; and that, upon these, as well as other accounts, they will have no cause to be dissatisfied with the proposal under consideration.

Let it be added, that, whether the non-subscribers shall fare better or not by that proposal than the

subscribers, it is the interest of all the public creditors upon principle and precedent, that the public faith should be preserved toward those non-subscribers.

But, at the same time, every consideration connected with the question, urges that nothing more should be done for non-subscribers than is positively due to good faith. Accordingly, the proposition contemplates that their debt shall not be funded, but that provision shall be annually made.

With regard to *arrears* of interest, a tenth part only is proposed to be paid on the first of January, 1796. At this rate they would be paid off in ten years.

In strictness, they ought to be immediately discharged. But to have done this on the whole debt would have been impracticable; to do it on what now remains unsubscribed would not only be unequal, but would, at the present moment, obstruct arrangements which are conducive to the general interests of the creditors. The state of the Treasury in succeeding years will enable Congress to decide how far the payment can be accelerated. In the meantime, the creditors have an option to separate these arrears from the principal, and to fund them at three per cent., as has been done generally with regard to interest. The case of a large *arrear* of interest, arising from the inability of a former government, which is the present case, is liable to some peculiar considerations.

A difference is made in the special case of the loan-office certificates, which, by contract, are entitled to

interest of six per cent. on the nominal principal, redeemable only by payment of the specie principal.

This is too disadvantageous a footing for the Government.

The alternative most convenient at this time is to pay off the debt, which is proposed. To elude this contract, would be to sacrifice a very great principle to a very little interest.

The amount will be seen in the statement A.

### *Remarks upon the Second Proposition*

The certificates, or bills of credit, called new emission money, were emitted pursuant to a resolution of Congress, of the 18th of March, 1780, which directs them to be emitted upon the funds of individual States, to bear an interest of five per centum per annum, payable in specie, at the redemption of the bills; or, at the election of the holder, *annually, at the Continental loan offices, in sterling bills drawn by the United States upon their commissioners in Europe*, and pledges the faith of the United States for the payment of the said bills, *in case any State on whose funds they should be emitted, should, by the events of war, be rendered incapable to redeem them;* directing, also, an endorsement to be made upon each *bill*, in these words: "The United States *insure* the *payment* of the within bill, and will draw bills of exchange for the interest, annually, if demanded, according to a resolution of Congress, of the 18th of March, 1780."

These resolutions, and the endorsement upon the

bills, engage the absolute promise of the United States for the payment of the interest indefinitely, and their eventual guaranty of the principal, in case any State on whose funds the bills should be emitted should, by the events of war, be rendered incapable to redeem them; which is, in effect, though not in form, an absolute guaranty of the principal: for the United States are bound to pay the interest *perpetually* till that is discharged.

Good faith demands that the United States should supply the omissions of the States which issued the bills, by providing themselves, at least, for the interest upon them.

But it is not as easy to pronounce on what terms they ought to be provided for.

On their face, and according to the *unrevoked* resolutions of Congress, they are of specie value, equal to their nominal amount, and bearing five-per-cent. interest.

But it is known that they were issued by different States, at different values, fixed by *previous laws*. The true nature of the contract, therefore, in fact, and the true equity of the case, are, from these circumstances, involved in some question.

A compromise by a new agreement, seems the best road out of the difficulty.

This is the aim of the proposition, which, it is hoped, will, in the main, reasonably consult all interests.

There have been special references of this subject to the Secretary, but he purposely declined a report till the expiration of the term limited by the act,

entitled "An act relative to claims against the United States not barred by any act of limitation, and which have not been already adjusted," passed the 12th of February, 1793, had obviated a danger to which the business was exposed. It is now ascertained that the amount for which the United States shall be in future liable, is $90,574. The sums subscribed to the loan will, of course, be a charge against the States which respectively issued the bills.

*Remarks on the Third Proposition*

The payment of interest and instalments of principal of our foreign debt, in the countries where it was contracted, is found by experience to be attended with difficulty, embarrassment, some loss, and a degree of casualty which occasionally puts in jeopardy the national credit. Loans for reimbursement must be made beforehand, as the market suits, and necessarily involve double interest for a greater or less time. The procuring of bills to be remitted for payment of interest cannot be depended upon in coincidence with the periods of payment, which, co-operating with distance, renders inconvenient anticipations necessary.

The remitting in commodities would be liable to other casualties and to some peculiar objections; and whatever mode be adopted, it may be frequently not practicable to deposit in season the necessary funds on the spot without great sacrifices. If, therefore, the place of these payments could, with consent of the creditors, upon an equitable indemnification to them for the transfer, be changed to the

United States, the operation would be in various lights beneficial. It has occurred that the present posture of the affairs of Europe might favor a plan of this kind, and perhaps produce some collateral advantages. Under this idea, an experiment is proposed. The proposed augmentation of interest is intended as an indemnification for the expense and hazard of agencies in this country, delays in remittance, inconvenience of distant negotiation, renunciation of the facilities which attend the receipt of interest at home, risks of loss by exchange, etc., and is calculated on a liberal scale, in order to induce an acceptance of the proposition.

If, instead of an *increase* of interest, the option of an *equivalent* be given by way of premium, in stock bearing an interest of five per cent., it would have attractions for certain creditors, and would facilitate the success of the measure. On strict calculation, the equivalent would be six dollars and fifty-eight cents per one hundred dollars, of the principal subscribed. It is not perceived that the interests of the United States could suffer by allowing the alternative. The fixing of the rate of interest, by postponing the reimbursement to the year 1818, would also be a powerful inducement, and till the period of reimbursement arrives, any surplus of the sinking fund which may exist can be invested in purchases, so as to prevent the progress of the fund being arrested.

It could not be necessary to observe, except for the sake of dispelling jealousy or apprehension on the part of the creditors, *that, while the plan is in experi-*

*ment, and afterwards, with regard to all who do not embrace it*, every thing is to proceed as heretofore, and as the contracts respecting the debt require.

The auxiliary proposition of giving power to the commissioners of the sinking fund to remit certificates for sale is founded upon a belief that this operation will sometimes be practicable, where direct loans cannot be effected, and will be occasionally a more beneficial mode of remittance than by bills of exchange.

### *Remark on the Fourth Proposition*

The object of this proposition is to give moral certainty to the adequateness of the fund for paying the interest upon the debt, and for its ultimate redemption, making a reasonable allowance for the casualties to which it is exposed.

### *Remarks on the Fifth Proposition*

There is no sentiment which can better deserve the serious attention of the legislators of a country than the one expressed in the speech of the President, which indicates the danger to every government from the progressive accumulation of debt. A tendency to it is, perhaps, the natural disease of all governments; and it is not easy to conceive any thing more likely than this to lead to great and convulsive revolutions of empire.

On the one hand, the exigencies of a nation, creating new causes of expenditure, as well from its own, as from the ambition, rapacity, injustice, intemperance, and folly of other nations, proceed in increasing

and rapid succession. On the other, there is a general propensity in those who administer the affairs of a government, founded in the constitution of man, to shift off the burden from the present to a future day—a propensity which may be expected to be strong in proportion as the form of a state is popular.

To extinguish a debt which exists, and to avoid the contracting more, are ideas always favored by public feeling and opinion: but to pay taxes for the one or the other purpose, which are the only means of avoiding the evil, is always, more or less, unpopular. These contradictions are in human nature; and happy, indeed, would be the lot of a country that should ever want men ready to turn them to the account of their own popularity, or to some other sinister account.

Hence, it is no uncommon spectacle to see the same men clamoring for occasions of expense, when they happen to be in unison with the present humor of the community, whether well or ill directed, declaiming against a public debt, and for the reduction of it as an abstract thesis; yet vehement against every plan of taxation which is proposed to discharge old debts, or to avoid new, by the defraying expenses of exigencies as they emerge.

These unhandsome arts throw artificial embarrassment in the way of the administrators of a government, and, co-operating with the desire which they themselves are too apt to feel to conciliate public favor, by declining to lay even necessary burthens, or with the fear of losing it, by imposing them with

firmness, serve to promote the accumulation of debt, by leaving that which exists without adequate provision for its reimbursement, and by preventing the levying, with energy, new taxes, when new occasions of expense occur. The consequence is, that the public debt swells till its magnitude becomes enormous, and the burthens of the people gradually increase, till their weight becomes intolerable. Of such a state of things, great disorders in the whole political economy, convulsions and revolutions of government, are a natural offspring.

There can be no more sacred obligation, then, on the public agents of a nation, than to guard, with provident foresight and inflexible perseverance, against so mischievous a result. True patriotism and genuine policy cannot, it is respectfully presumed, be better demonstrated by those of the United States, at the present juncture, than by improving, efficaciously, the very favorable situation in which they stand, for extinguishing, with reasonable celerity, the actual debt of the country, and for laying the foundation of a system which may shield posterity from the consequences of the usual improvidence and selfishness of its ancestors, and which, if possible, may give IMMORTALITY TO PUBLIC CREDIT.

Fortunately for the first object, the circumstances in our foreign affairs, which, during the last session, impelled to an extension of the national revenues, have left little more to do than to apply the existing means with decision and efficacy.

The second object will depend on the establishment of wise principles in the application, fitted to

become a permanent precedent in the fiscal system of the country.

The first report of the Secretary on the subject of the public debt, of the 9th of January, 1790, suggests the idea of "incorporating, as a *fundamental maxim* in the system of public credit of the United States, that the *creation* of debt should *always* be *accompanied with the means of extinguishment;* that this is the *true secret for rendering public credit immortal*, and that it is difficult to conceive a situation in which there may not be *an adherence to the maxim*"; and it expresses "an unfeigned solicitude, that *this* may be attempted by the United States, and that they may commence their measures for the establishment of credit with the observance of it." [1]

No opportunity has been lost by the Secretary, as far as he could contribute to the event, to reduce this principle to practice; and important steps towards it have been, from time to time, taken by the Legislature.

But much remains to be done to give it full effect. The present state of things encourages and invites to the consummation of the plan. And the Secretary, about to leave the office he holds, feels it a peculiar duty to make a final effort to promote that invaluable end.

[1] It is understood that the Parliament of Great Britain has, within the last four years, formally adopted as a *standing rule*, the principle of *incorporating, with the creation of debt, the means of extinguishment*. How much easier must the execution of this important principle be to the United States, than to a nation which, before it began, had so deeply mortgaged its resources. Let the United States never have to regret, hereafter, that they postponed too long so provident a precaution.

This is the object of the fifth proposition, aided by the preliminary provisions of the fourth. This proposition aims at two principal points: 1. To constitute a fund sufficient, in every supposable event, for extinguishing the whole of the present debt of the United States, foreign and domestic, in a period not exceeding thirty years. 2. To fix its destination unchangeably, by not only appropriating it permanently, under the direction of commissioners, and vesting it in them as property in trust, but by making its faithful application *a part of the contract with the creditors*.

As to the first point: If the temporary duties on imports be rendered permanent, the annual reservation of six millions of dollars postponed, and if the additional appropriations which are proposed be made to the sinking fund, its intended force will not only be equal to the effect meant to be produced, but it may be hoped that there is scarcely a casualty which can reasonably be taken into calculation, foreign war not excepted, which will occasion a deficiency in the fund.

The whole amount of the duties on imports and tonnage, and upon domestic distilled spirits and stills, estimated now to amount to $6,079,418 58, besides the dividends on bank stock, and the items which now compose the sinking fund, will then be appropriated, primarily, to the interest upon the public debt, and to the sinking fund; which, together, including the deferred stock, will demand, permanently, from that revenue, $4,373,836 03 — little more than two thirds of the fund from which they

arise. An expectation may be indulged, that even foreign war, making due allowance for what will always be practicable through neutral Powers, would not occasion a defalcation in the revenues greater than the difference. This competency of the fund is an essential idea. The fulfilment of the object, as far as the uncertainty of human affairs will permit, ought to be superior to casualty.

The necessity of a reliance on auxiliary provisions, always precarious in those situations which affect the productiveness of the public revenues, ought to be, as far as practicable, superseded by the ample nature of the provision.

As to the second point: The intent is to secure, by all the sanctions of which the subject is susceptible, an inviolable application of the fund, according to its destination. No expedients more powerful can be devised for this purpose than to clothe it with the character of *private property*, and to engage absolutely the faith of the government, by making the application of it to the object, *a part of the contract with the creditors*.

But is this necessary?

Its necessity rests on these cogent reasons: The *inviolable* application of an adequate sinking fund is the only practicable security against an excessive accumulation of debt, and the essential basis of a permanent national credit.

Experience has shown, in countries the most attentive to the principles of credit, that a simple appropriation of the sinking fund is not a complete barrier against its being diverted, when immediate

exigencies press. The causes which have been stated with another view, tempt the administrators of government to lay hold of this resource rather than resort to new taxes. This indicates the utility of endeavoring to give, by additional sanctions, inviolability to the fund.

But, will those proposed answer the end?

They are the most efficacious that can be imagined, and they are likely to be entirely efficacious. They cannot be disregarded, without, by breach of faith and contract, destroying credit; and at a juncture, too, when it is most indispensable. The emergencies which induce a diversion of the fund are those in which loans, and, consequently, credit, are most needed.

But will it be safe to put the funds so entirely out of the command of the government? May there not be situations in which the command of it may be requisite to the safety of the State?

This is not conceivable. The amount of the sinking fund will, in the situations which create extraordinary demands for money, be always inconsiderable, compared even with a single year's expenditure. The current revenues of a nation do not, in such cases, suffice. Plunder or credit must supply the deficiency. The first presupposes a subversion of all social order. The second will find its best support and greatest efficacy in adhering steadily to the principles of such a fund. An annuity of seven dollars will pay the interest upon, and discharge a capital of, one hundred dollars, bearing six per cent. interest, in thirty-three and a third years, nearly.

The situation of a country must be not a little exhausted, if it cannot create yearly, by new revenues, during the continuance of a foreign war, an annuity on the above scale sufficient to fund the loans of which it may stand in need. Ten millions of dollars will, with order and economy, maintain in this country an army of fifty thousand men for a year. Viewing our geographical position, is there a prospect of any war expensive beyond this ratio? If not, an annuity of seven hundred thousand dollars, created each year of the war, would suffice. But it would be wise, in such an event, to carry taxation, in the first instance, to the full extent of the ability of the state, which would proportionably contract the necessity for borrowing, and, consequently, the extent of the annuities necessary for loans.

If a nation can find embarrassment in creating the revenues requisite on this scale, it must arise from her having reached a stage when, from the neglect of the principle now inculcated, the mass of her debt has become so enormous as to strain her faculties in order to make a provision for it.

The United States are in a situation altogether different. An inspection of the list of their revenues discovers that they have a large field of resource unexplored. Their youth, and large tracts of unsettled lands, and land in the infancy of improvement, assure them a great and rapid increase of means. Even their actual revenues, without additions, must, with the progress of the country, considerably increase. And, though war may interrupt, the temporary interruption being removed by the restoration of peace,

their increasing productiveness, suspended for a time, must resume its vigor and growth. In a given number of years a considerable augmentation is certain.

The government of this country may, therefore, adopt, fearless of future embarrassment, a principle which, being adopted, will ultimately furnish resources for future exigencies, without an increase of burthen to the community.

To explain this last idea: It will readily be perceived that the funds pledged for paying the interest and sinking the principal of a portion of the debt existing or created at a particular time, will, within a certain period, extinguish that portion of debt.

They will then be liberated, and will be ready for any future use, either to defray current expenditures, or be the basis of new loans, as circumstances may dictate. And, after a course of time, it is a reasonable presumption, that the funds, so successively liberated, will be adequate to new exigencies, as they occur.

Moreover, the last clause of the proposition authorizes the deriving aid from the sinking fund for new loans, whenever the state of the fund admits of it, consistently with the accomplishment of its purposes—that is, when it is sufficient—1st, to make good the payments on account of the principal of the debt as they accrue; 2d, to purchase in the market all that part of the public debts of which there is no stipulation of payment by instalments (as the three per cent. stock) within a period of thirty years.

This, while it secures the extinction of the exist-

ing debt within a reasonable term, by preventing too great a proportion of the public revenue from being tied up by the sinking fund, gives due weight to the consideration of providing for future emergencies.

The same consideration has governed in proposing (instead of the appropriation of a definite sum out of the revenue from imports and tonnage, which, in certain years, would be greater than will be permanently necessary) that the sum to be applied out of that revenue shall be so much from year to year as, with the other items of the sinking fund, will suffice for the object. It has likewise influenced in postponing the redemption of that stock which stands to the credit of certain States, in consequence of the report of the commissioners for settlement of accounts.

Every system of public credit must assume it as a fundamental principle, that the resources of the country are equal to its probable exigencies, and that it will possess ability to pay the debts which it contracts. If this be so, there is no cause to hesitate about the inviolable appropriation of funds to the extinction of an existing debt within no less a term than thirty years.

Indeed, as before intimated, it cannot be doubted that the resources of a credit, built upon a foundation so solid as that which is recommended, will more than replace, even in the earliest stages of our affairs, the use of the additional funds withdrawn from the command of the government to effect it, and, in the eventual operation, will give a more abundant command of funds than it can otherwise have. The successive liberation of the revenues, suc-

cessively pledged, after accomplishing their object, will afford resources that may almost be said to be inexhaustible.

It should be recollected, too, that the public arrangements may, under a great pressure, anticipate the approaching period of such liberation, by intermediate temporary loans, to be replaced by those funds when they are free.

This proposition exemplifies, as to the past, the nature of the maxim which has been supposed capable of giving immortality to credit, namely: that, with the *creation* of debt, should be incorporated the *means* of extinguishment; which means are twofold: 1. *The establishing, at the time of contracting a debt, funds for the reimbursement of the principal*, as well as for the payment of interest within a determinate period. 2. The *making it a part of the contract*, that the fund, so established, shall be inviolably applied to the object.

It is believed that it would be happy for the United States, if Congress would adopt this principle as a rule in all future loans—never to be departed from; and a good evidence of this determination will be, to apply it to the past.

This would be, at the same time, an antidote against what may be pronounced the most plausible objections to the system of *funding* public debts; which are, that, by facilitating the means of supporting expense, they encourage to enterprises which produce it; and, by furnishing in credit a substitute for revenue, likely to be too freely used to avoid the odium of laying new taxes, they occasion a tendency

to run in debt. Though these objections to funding systems, which give the greatest possible energy to public credit, are a great source of national security, strength, and prosperity, are very similar to those which speculative men urge against national and individual opulence, drawn from its abuses; and though, perhaps, upon a careful analysis of facts, they would be found to have much less support in them than is imagined, attributing to those systems effects which are to be ascribed, more truly, to the passions of men, and perhaps to the genius of particular governments; yet, as they are not wholly unfounded, it is desirable to guard, as far as possible, against the dangers which they suppose, without renouncing the advantages which these systems undoubtedly afford.

It will readily be seen, that the maxim of making concurrent provision for the principal as well as interest, in the act of contracting debt, if by *precedent* and *habit* it can be rendered a rule of administration, by implicating a greater portion of the revenue in every such operation than would be requisite for a mere provision for interest, will control proportionably the disposition to defer the burthen to futurity, and create a greater necessity for circumspection in incurring expense.

It is, probably, the true expedient for uniting a due regard to the present accommodation of the community, with a due care not to overburthen posterity—the full energy of public credit, with a salutary restraint upon the abuses of it.

To this explanation of the general principles of the

fifth proposition, it may be proper to add some brief notes on particular parts of it.

It is proposed that the redemption of the present six per cent. stock shall commence on the 1st of January, 1796. This time of commencement is recommended by several reasons: 1. It ought to be such as to admit of sufficient notice to distant creditors. 2. It will favor order, to date the commencement of every new pecuniary operation, where there is an option, and no particular reason to the contrary, with the commencement of the natural year. 3. The moment of payment presupposes that the annuity to be paid has actually accrued, which will not be the case till the end of the present year. 4. The small delay, by not forcing the means, will facilitate the future execution.

It is a part of the plan to make provision for reimbursing the remaining instalments of the two-million loan, had of the Bank of the United States, pursuant to the act of incorporation. The preceding instalments have been reimbursed out of the proceeds of foreign loans. This resource cannot, in future, be relied upon; and for such a purpose it is not as eligible as a domestic one, though circumstances have hitherto dictated a recurrence to it. By making the dividends on the stock auxiliary for this purpose to the revenue from taxes, the object is effected with little more than half the sum from that revenue; and, in the end, a fund is formed from the dividends which, with a small addition, suffices for the redemption of the deferred stock. As these instalments are yearly falling due, and must be paid as they

accrue, it is essential that a provision for them be contemplated in the general arrangement requisite to the completion of our system of credit. There is, perhaps, no easy alternative to what is proposed, except the sale of the stock. But, waiving other weighty considerations against such a measure, it is, in the view of a true economy, liable to the most solid objections.

It is morally certain that the dividends on the stock will increase, and the value of the capital, from this and collateral causes, more than proportionably. There is no momentary urgency to induce the relinquishment of this future advantage. To sell at present would be to abandon the difference without necessity. It cannot be expedient in a government to part with a capital which, at the time, produces as great or a greater revenue than can be realized from the proceeds of a sale, however invested; and which has an inherent tendency to future augmentation. The measure, too, would be to renounce, or lessen, a most convenient resource for forming the redeeming fund of the deferred stock.

It is proposed to carry the proceeds of the sales of the Western lands to the sinking fund. This is to execute the intention of the funding act, which has not organized the mode of application; and it has the advantage of combining in one system all the provisions for extinguishing the debt.

It is proposed that all surpluses of revenue shall, at a certain time, be carried to the use of the sinking fund. This is to extend and give *effect* to a principle

which has already received the legislative sanction. It was necessary to fix a time when the appropriation of the surplus should become absolute, and that this should be consistent with a due opportunity to provide for the exigencies of the public service. Both these considerations have been consulted. This measure has, besides, reference to a more speedy redemption of the debt than it appears prudent to attempt by an *absolute appropriation* of more extensive funds. And the legislators of to-day would be entitled to the lasting gratitude of their country, if they would extend this auxiliary resource by all the means which are consistent with a due regard to the present accommodation of their constituents.

It is proposed to authorize the commissioners of the sinking fund to provide, by new loans, for the reimbursement of the instalments which, from time to time, accrue. This is on the ground that it is essential to the perfection of the system of redemption, that all the means of ultimate execution should be organized in it, and that there should be no need of future provisions.

The last clause of the proposition excepts from the operation of that clause the interest on the six per cent. stock. This is because that interest is destined to form the accumulations for paying the successive instalments of the principal of that stock, which increase each year in a ratio to the interest liberated by each payment.

The statement E exhibits the course of the sinking fund, as proposed to be established.

*Remarks on the Sixth Proposition*

This will be a useful and important provision. It has reference to a circumstance repeatedly adverted to—the long credits given upon the principal branches of revenue; from which it happens, that, though the *fund itself*, or the *product* of the revenue, is more than adequate to an appropriation, yet the receipts upon it come too slowly into the treasury to answer the end, without anticipation by temporary loans. Its propriety depends on the principle suggested under the last head, of having all the means of complete execution organized in the system of public credit.

*Remarks on the Seventh Proposition*

It is a good rule of caution, that no more of the public revenues should be rendered permanent, than is necessary to give moral certainty to the provisions which may be regarded as the pillars of public credit. This idea will, it is believed, be satisfied, by giving permanency to the now temporary duties on imports. Accordingly, it is only proposed to extend the duties, mentioned in this proposition to the year 1800, and thence, to the end of the next ensuing session of Congress; which is on the ground that they ought to be commensurate in duration with the objects which they are to accomplish, and no more.

It has been already noticed, that they are at present chargeable, together with the temporary duties on imports, laid in the last session, with an appropriation of 1,292,137 dollars and thirty-eight

cents, and with the interest of one million of dollars, authorized to be borrowed with a view to foreign intercourse; having a special eye to an object very interesting to the commerce and feelings of the United States.

This business wants a further arrangement; standing, at present, upon a vague and inefficient footing. The reimbursement of the loan is not adequately provided for, neither is the interest, this being predicated on funds which, in their present form, would probably expire after a product of two years.

According to the fifth proposition, the temporary duties on imports, after the above-mentioned appropriation of 1,292,137 dollars and thirty-eight cents shall have been satisfied, will become permanently charged with the interests on the public debt, the sinking fund, and the annual reservation of $600,000, for the support of government.

If the duties mentioned in the sixth proposition are continued till the first of January, 1800, and the reimbursement of the principal of the loan, as well as the interest, is referred to them, two good purposes will be answered: the obtaining the loan will be facilitated, and its complete reimbursement will be effected within the term allotted, without an augmentation of the *permanent* debt of the country. This makes allowance for fulfilling the appropriation for the current service already charged upon this fund.

It is presumed to be a conclusive reason in favor of the proposition, that it aims at preventing an increase of permanent debt. If services of this kind, when the United States are at peace (at least with

civilized Powers), are made causes of permanent loans, the progress of new debt will easily exceed the extinction of old.

It appears desirable that there should be a steady effort, *as a rule of administration*, not to increase the permanent debt of the country by permanent loans, except when it is inevitable, by the existence of a war with some European Power.

The comparative view of revenue and expenditure (statement F) establishes, satisfactorily, that these duties cannot be dispensed with, unless there be a substitute, if the redemption of the public debt is to be seriously entered upon; and it is believed that there cannot be devised objects of revenue more proper in themselves, nor more generally acceptable to the people. Whatever interested parties may allege, it seems self-evident that there can hardly be a reasonable question, except as to the best mode of collection. The objection, that part of them falls on manufactures, has no weight. The manufactures on which they fall are *complete luxuries* and *completely established;* consequently, fit objects of revenue. The increased duties on the rival foreign articles are a full protection to the manufacture. Whatever may be the appearances in the infancy of the tax, it is certain, in principle, that it will finally fall on the consumer, as generally as duties on imported commodities.

*Remarks on the Eighth Proposition*

This is to terminate an embarrassment which has been experienced. Appropriations are frequently

made for objects, the extent of which is not precisely known, or in a degree casual. To leave them indefinite, as to time, is sometimes to tie up, unnecessarily, a portion of the public funds, which may, ultimately, not be wanted at all for the purpose of the original appropriation.

It will do away this inconvenience, and promote perspicuity in the treasury accounts of appropriations, if an ultimate period is fixed when each appropriation shall be deemed to have ceased. Should further appropriations appear necessary for the same objects, new estimates can be presented, and new appropriations made.

The designating an account with a denomination known in the laws, to which the surpluses are to be carried, will facilitate future legislative dispositions of the resulting fund. It is, however, essential to the system of public credit, that this should be with the exceptions contained in the proposition.

*Remarks on the Ninth Proposition*

This proposition is calculated to give simplicity to the public accounts of stock and revenue, which will conduce to correctness, dispatch, and economy. As the revenues are manifestly more than adequate to the claims of all the creditors, they, none of them, have any interest in the distinctions which now exist, and which grew out of the course of the business; and the rights of none of them will be affected, because all who choose may continue on their former ground, by signifying their dissent to the present plan. It is, however, presumed, there will be no such dissent.

*Remarks on the Tenth Proposition*

It is important to the fiscal calculations, to ascertain, positively, the extent of every portion of the public debt. At present, the amount of these several items of it is deduced from accounts of the late war, of various officers and offices in some instances, conducted with little order. There is not, therefore, sufficient certainty; indeed, it is probable, from the length of time that has elapsed without their appearing, that the computed amount exceeds the real.

Besides, they are, from their nature, subject to forgeries and counterfeits; which implies a danger of loss to the public, till their circulation is finally terminated. The proposition, accordingly, besides the obtaining of better information, aims at obviating this danger.

Allowing sufficient time for bringing them in to be exchanged for certificates of equivalent tenor, while it is a measure tending to public information and security, it can be liable to no reasonable objection on the part of the creditors.

The Secretary of the Treasury has reserved for the conclusion of this report, a proposition which appears to him of great importance to the public credit, and which, after some preliminary observations, will be offered to consideration. It relates to the right of taxing the public funds, and to that of sequestering them in time of war.

A proposition, on either of those points would have been deemed superfluous, had there never been discussions asserting a right to do the one and the

other, and even the expediency of exercising that right. The negative of both the pretensions, from the habit of regarding it as incapable of being disputed, had acquired, in the mind of the Secretary, so much the force of an axiom as to have precluded even the mention of the subject in the plan which he originally submitted for funding the public debt. He should, otherwise, have thought it an indispensable duty to suggest, as a matter of primary consequence to the system of credit contemplated in the plan, the express renunciation of those pretensions; for they are (as he believes) not only unwarranted by principle or usage, but subversive of the sound maxims of public credit. A persuasion that this would always be a *truth granted* in the councils of the United States, is his apology for the omission.

Even now he should think it useless to depart from his silence on the point, had not the discussions alluded to created some alarm in places where all the circumstances are not well understood, which it is the interest of the country to dispel. The confidence justly to be reposed in the collective wisdom of this government, forbids the supposition, by one acquainted with its constitution, that the security of the creditor can need, in this particular, a further sanction. It is presumed to be impossible, that any *final* act can ever give so deep a wound to the national interest and character, as to derogate from a principle which may be placed among the most sacred in the administration of a government.

Is there a right in a government to tax its own funds?

The pretence of this right is deduced from the general right of the legislative power to make all the property of the state contributory to its own exigencies.

But this right is obviously liable to be restricted by the *engagements* of the *government;* it cannot be justly exercised in contravention of them; they must form an exception. It will not be denied, that the general right in question could, and would, be abridged, by an express promise not to tax the funds. This promise, indeed, has not been given in terms, but it has been given in substance. When an individual lends money to the state, the state stipulates to repay him the principal lent, with a certain interest, or to pay a certain interest, indefinitely, till the principal is reimbursed; or it stipulates something equivalent, in another form. In our case, the stipulation is in the second form.

To tax the funds, is manifestly either to *take*, or to *keep back*, a portion of the principal or interest *stipulated to be paid.*

To do this, on whatever pretext, is *not to do what is expressly promised;* it is not to pay that precise principal, or that precise interest, which has been engaged to be paid; it is, therefore, to violate the promise given to the lender.

But is not the stipulation to the lender, a tacit reservation of the general right of the Legislature to raise contributions on the property of the state?

This cannot be supposed—because it involves two contradictory things; an *obligation to do*, and a *right not to do.* An obligation to *pay a certain sum*, and

a *right to retain it in the shape of a tax.* It is against the rules, both of law and reason, to admit, by *implication*, in the construction of a contract, a principal which goes in destruction of it.

The government, by such a construction, would be made to say to the lender: "I want a sum of money, for a national purpose, which all the citizens ought to contribute proportionably, but it will be more convenient to them, and to me, to borrow the money of you. If you will lend it, I promise you faithfully, to allow you a *certain rate* of interest, while I keep the money, and to *reimburse the principal* within a determinate period, *except so much of the* one and the other as I may think fit to *withhold, in the shape of a tax.*"

Is such a construction either natural or rational? Does it not, in fact, nullify the promise by the reservation of a right not to perform it?

Is it to be presumed, without being expressed, that such can be the understanding of a lender, when he parts with his money to a government?

The contrary is so much the more presumable that nothing short of an express reservation can support the pretension to tax the funds.

It may be replied, that the creditor might be willing to rely upon the equity of the government, not to abuse its right, by exacting from him excessive contributions.

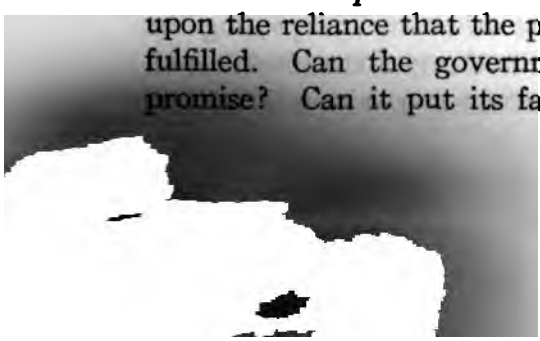
This, if true, does not obviate the difficulty of supposing the coexistence of an *obligation* and a *right*, destructive the one of the other, in interpreting the sense of a contract, when nothing of the kind is said.

It is possible that a creditor might be willing so to

contract; yet it is still necessary, in order to determine that he has done it, to find some provisions or expressions in the contract, indicating the intention to render what is stipulated compatible with what is reserved. But it is not probable that an individual would be willing to lend upon such terms. He would justly apprehend, that, in great emergencies, a right having no *limit* but the *opinion* of the party possessed of the *power*, would be abused, that the convenience of laying hold of a fund already prepared and at hand, supported by a claim of right, would be a temptation to abuse, not easy to be resisted. However well disposed to contribute, in common with his fellow-citizens, on all the ordinary objects of property or income, he would be unwilling to subject himself to a special burthen, in the peculiar character of creditor of the state. He would prefer to employ his money in other ways; even to lend it to private persons, where it might be more likely to escape the hand of the fiscal power.

Let the question be tried by another analysis.

*Public debt* can scarcely, in legal phrase, be defined either as *property* in possession or in action. It is evidently not the first, till it is reduced to possession by payment. To be the second, would suppose a *legal power* to *compel* payment by *suit*. Does such a power exist? The true definition of public debt is *a property subsisting in the faith of the government. Its* essence is *promise*. Its definite value depends upon the reliance that the promise will be definitely fulfilled. Can the government rightfully tax its promise? Can it put its faith under contribution?



Where or *what* is the value of the debt, if such a right exists?

Suppose the government to contract with an individual to convey to him a hundred acres of land, upon the condition of paying a hundred dollars. When he came to pay the hundred dollars and demand his title, could the government require of him to pay fifty more as a tax upon the land, before it would consent to give him the title? Who would not pronounce this to be a breach of contract—a fraud—which nothing could disguise?

This case is parallel with that under examination, with circumstances that fortify the right of the lending creditor.

The government agrees with him that, for one hundred dollars, which he delivers to the government, it will deliver to him, at the end of each year, six dollars. Here the six dollars *to be delivered* answer to the land *to be conveyed*, with this stronger ground of right, that the consideration for them has actually been given and received. Yet, when the creditor comes to demand his six dollars, he is told that he cannot have them, except with the reservation of one dollar as a tax upon the six, or that he cannot have them, except upon the condition of returning one dollar as that tax. What is this but to say that his title to the money in this case, as to the land in the other, must depend upon his paying or allowing a *further* consideration for it, not contemplated in the contract? Can there be a doubt that this, also, would be a breach of contract—a fraud?

The true rule of every case of property, founded on

contract with the government, is this: It must first be reduced into possession, and then it will become subject, in common with other similar property, to the right of the government to raise contributions upon it. It may be said that the government may fulfil this principle by paying the interest with one hand, and taking back the amount of the tax with the other. But to this the answer is that, to comply truly with the rule, the tax must be upon all the money of the community, not upon the particular portion of it which is paid to the public creditors; and it ought, besides, to be so regulated as not to include a *lien* of the tax upon the fund. The creditor should be no otherwise acted upon, than as every other possessor of *money;* and, consequently, the money he receives from the public can then only be a fit subject of taxation when it is entirely separated and thrown, undistinguished, into the common mass. A different practice would amount to an evasion of the principle contended for, and to oppression. A rent, or annuity, liable before it passes, or in the act of passing, or at the moment of passing, from one proprietor to another, to a deduction, or drawback, at the pleasure of the party from whom it is to pass, is an imaginary thing, destitute both of shape and substance.

When a government enters into contract with an individual, it deposes as to the matter of the contract its constitutional authority, and exchanges the character of legislator for that of a moral agent, with the same rights and obligations as an individual. Its promises may be justly considered as excepted

out of its *power to legislate*, unless in aid of them. It is, in theory, impossible to reconcile the two ideas of *a promise which obliges* with a *power to make a law which can vary the effect of it.* This is the great principle that governs the question, and abridges the general right of the government to lay taxes, excepting out of it a species of property which subsists only in its promise.

There are persons who, admitting the general rule, conceive a distinction to exist between a tax upon the funds, which must be paid at all events, and a tax upon alienations of them, which will only be paid when they are transferred from one to another. The latter they think justifiable, because it is in the option of the creditor to avoid the tax by avoiding the alienation. But the difference between the two cases is only a difference in the degree of violation.

The stock, in its creation, is made transferable. This quality constitutes a material part of its value, and the existence of it is a part of the contract with the government, which has undertaken, itself, to conduct the operation of transferring by its own officers, and consequently at its own expense. It is as completely a breach of contract to derogate from this quality, in diminution of the value of stock, by encumbering the transfer with a charge or tax, as it is to take back, in the same shape, a portion of the principal or interest. It is obvious, too, that this may be carried so far as essentially to destroy the transferable capacity. But what is a tax upon transfers, other than the faculty of taking away from the actual proprietor of stock a portion of his principal,

whenever his interests or his necessities demand a transfer, in derogation from the full enjoyment of the right to transfer, and from the express promise of the government to pay to him or his alienee? For it is upon the seller, not upon the buyer, that such a tax will fall. And where is the substantial difference, on the ground of contract, between this and a direct tax upon the fund itself? The value of it is as certainly impaired by the one as by the other.

But shall the proprietor of money in the funds, then, be exempt from his proportion of the burthens which other citizens bear?

This will not be the consequence of the principle. As a consumer, of which his income is the instrument, he will pay his proportion of the taxes on consumption. As a holder of any other species of property procured by that income, or otherwise, which is liable to a tax, he must also contribute his proportion.

But, without undue refinement, the lender of money to the public may be affirmed to have paid his tax when he lends his money.

Relying upon the engagement of the government, express or implied, that he will receive what is promised him, without defalcation, he is content with a less interest than he would take if subject to any such defalcation, and especially if it was to be arbitrary as to its extent. In this lower rate of interest he may be truly said to pay his tax, or to purchase an exemption from it.

Here, also, we find what is decisive on the point of expediency.

If the government had a right to tax its funds, the exercise of that right would cost much more than it was worth. The money-lender would exact exorbitant premiums, not only as an indemnification for the use which the government might probably make of its right, and which, in practice, would be likely to be qualified by some regard to equality of contribution, but as an equivalent for insurance against the risk or possibility of a more extensive use. Hence the government would be likely to pay much more in premiums upon its loans than it would draw back in taxes; and the former being supposed but equal to the latter, there would be no advantage in exercising the right.

But it will be, perhaps, more safe to affirm that there would be no borrowing at all upon such terms. The first precedent of a tax upon the funds might be expected to compel the government to an express renunciation of the right in every future loan. Solid capitalists would not be much inclined to adventure their money upon so precarious a footing as is implied in a power of taxing their credits.

These reflections lead readily to an estimate of the impressions which would be produced by the example of an imposition on the funds. Regarded either as a breach of contract, or as a deviation from the sound maxims of credit, the effect upon it would be nearly equally fatal. Whatever might be excused to a time of revolution, to a defect of means, or to some extraordinary peculiarity of situation, no excuse would be admitted for a deliberate departure from principles, at a time, too, of national

prosperity, in a flourishing state of the finances, after the foundations of a regular system had been laid. The departure would argue an incorrectness, an instability, or a depravity of views, calculated to give a lasting shock to public credit.

The United States must, henceforth, tread with the most cautious steps.

A renunciation of the right, in future, might not speedily heal the wound which an example of its exercise had given. Durable suspicions might fasten on the wisdom or the integrity of the government, which might occasion to it no inconsiderable loss and embarrassment, before a course of contrary experience would obliterate them.

The right of a government to sequester or confiscate property, in its funds, in time of war, involves considerations analogous to those which regard the right of taxing them. Whether the foreigner be, himself, the original lender, or the proprietor of stock, in its constitution *transferable without discrimination*, he stands upon equal ground with the citizen. He has an equal claim upon the faith of the government.

In the second case, as the substitute of the original lender, the promise made attaches immediately upon him. Indeed, the certificates which issue upon every transfer, and which may be called the public bonds, designate him as the creditor, and expressly invest him with the correspondent rights.

To sequester or confiscate the stock, is as effectually a breach of the contract to pay, as to absorb it by a tax. It is to annihilate the promise, under the sanction of which the foreigner became a proprietor.

But, does not the general right of war, to seize and confiscate enemy property, extend to the property of the citizens of one nation in the funds of another—the two nations being at war with each other?

Resorting to principle as the guide, this question may, on solid grounds, be answered in the negative.

The right to seize and confiscate individual property, in national wars, excludes all those cases where the individual derives his title from the enemy sovereign or nation: for the right to property always implies the right to be protected and secured in the enjoyment of that property; and a nation, by the very act of permitting the citizen of a foreign country to acquire property within its territory, whether to lands, funds, or to any other thing, tacitly engages to give protection and security to that property, and to allow him as full enjoyment of it as any other proprietor—an engagement which no state of things between the two nations can justly or reasonably affect. Though politically right, that, in wars between nations, the property of private persons, which depend on the *laws of their own country*, or on *circumstances foreign to the nation with which their own is at war*, should be subject to seizure and confiscation by the enemy nation; yet it is both politically and morally wrong, that this should extend to property acquired under the faith of the government, and the laws of that enemy nation.

When the government enters into a contract with the citizen of a foreign country, it considers him *as an individual in a state of nature, and contracts with*

*him as such.* It does not contract with him as *the member of another society.*

The contracts, therefore, with him, cannot be affected by his political relations to that society. War, whatever right it may give over his other property, can give none over that which he derives from those contracts. The character in which they are made with him, the faith pledged to him personally, virtually exempt it.

This principle, which seems critically correct, would exempt as well the income as the capital of the property. It protects the use as effectually as the thing. What, in fact, is property, but a fiction, without the beneficial use of it? In many cases, indeed, the *income or annuity* is the property itself. And though general usage may control the principle, it can only be as far as the usage clearly goes. It must not be extended by analogy.

Some of the most approved publicists, admitting the principle, qualify it with regard to the income of lands, which they say may be sequestered "to hinder the remittance of it to the enemy's country."

But the same authority affirms that a state of war "does not so much *as touch* the sums which it owes to the enemy. *Everywhere*, in case of a war, funds credited to the public, are exempt from confiscation and *seizure.*" These expressions clearly exclude sequestration as well as confiscation.

The former no less than the latter, would be inconsistent with the declarations that a state of war does not *so much as touch* the sums which it owes to the enemy, and, that funds credited to the public

are exempt from *seizure*. And, on full inquiry, it is believed that the suggestion, thus understood, is founded in fact.

Usage, then, however it may deviate in other particulars, in respect to public funds, concurs with principle in pronouncing, that they cannot rightfully be sequestered in time of war.

The usages of war, still savor too much of the ferocious maxims of the times, when war was the chief occupation of man. Enlightened reason would never have pronounced that the persons or property of foreigners, found in a country at the breaking out of a war between that country and their own, were liable to any of the rigors which a state of war authorizes against the persons and goods of the enemy. It would have decreed to them, an inviolable sanctuary in the faith of those permissions and those laws, by which themselves and their property had come under the jurisdiction where they were found. It would have rejected the treachery of converting the indulgences, and even rights of a previous state of amity, into snares for innocent individuals.

Happily, however, the practice of later times has left several of those maxims little more than points of obsolete doctrine. They still retain their rank in theory; but usage has introduced so many qualifications, as nearly to destroy their operation.

This appears from the acknowledgement of writers, from the barrenness of modern history in examples of the application of those doctrines, from the opinions known to be generally current in Europe, and from a

variety of articles which are constant formulas in treaties of the present century.

The United States are every way interested in the mitigation of the rigor of the ancient maxims of war. They cannot better demonstrate their wisdom, than by their moderation in this respect. Particularly interested in maintaining, in their greatest purity and energy, the principles of credit, they cannot too strictly adhere to all the relaxations of those maxims which favor the rights of creditors. No temporary advantage can compensate for the evils of a different course of conduct.

Credit, public and private, is of the greatest consequence to every country. Of this, it might be emphatically called the invigorating principle. No well-informed man can cast a retrospective eye over the progress of the United States, from their infancy to the present period, without being convinced that they owe, in a great degree, to the fostering influence of credit, their present mature growth. This credit has been of a mixed nature, mercantile and public, foreign and domestic. Credit abroad was the trunk of our mercantile credit, from which issued ramifications that nourished all the parts of domestic labor and industry. The bills of credit emitted, from time to time, by the different local governments, which passed current as money, co-operated with that resource. Their united force, quickening the energies and bringing into action the capacities for improvement of a new country, was highly instrumental in accelerating its growth.

Credit, too, animated and supported by the general

zeal, had a great share in accomplishing, without such violent expedients, as, generating universal distress, would have endangered the issue, that Revolution, of which we are so justly proud, and to which we are so greatly indebted.

Credit, likewise, may, no doubt, claim a principal agency in that increase of national and individual welfare since the establishment of the present government, which is so generally felt and acknowledged, though the true causes of it are not as generally understood. It is the constant auxiliary of almost every public operation; has been an indispensable one in those measures by which our frontiers have been defended; and it would not be difficult to demonstrate that, in a recent and delicate instance, it has materially contributed to the safety of the state.

There can be no time, no state of things, in which credit is not essential to a nation, especially as long as nations in general continue to use it as a resource in war. It is impossible for a country to contend, on equal terms, or to be secure against the enterprises of other nations, without being able equally with them to avail itself of this important resource; and to a young country, with moderate pecuniary capital, and not a very various industry, it is still more necessary than to countries more advanced in both. A truth not less weighty for being obvious and frequently noticed.

Public credit has been well defined to be "a faculty to borrow, at pleasure, considerable sums on moderate terms; the art of distributing, over a succession

of years, the extraordinary efforts, found indispensable in one; a means of accelerating the prompt employment of all the abilities of a nation, and even of disposing of a part of the overplus of others."

This just and ingenious definition condenses to a point the principal arguments in favor of public credit, and displays its immense importance.

Let any man consult the actual course of our pecuniary operations, and let him then say whether credit be not eminently useful. Let him imagine the expense of a single campaign in a war with a great European Power; and let him then pronounce whether credit would not be indispensable. Let him decide whether it would be practicable, at all, to raise the necessary sum by taxes within the year, and let him judge what would be the degree of distress and oppression, which the attempt would occasion to the community. He cannot but conclude that war, without credit, would be more than a great calamity—would be ruin.

But credit is not only one of the main pillars of the public safety; it is among the principal engines of useful enterprise and internal improvement. As a substitute for capital, it is a little less useful than gold or silver, in agriculture, in commerce, in the manufacturing and mechanic arts.

The proof of this needs no labored deduction. It is matter of daily experience in the most familiar pursuits. One man wishes to take up and cultivate a piece of land; he purchases upon *credit*, and, in time, pays the purchase money out of the produce of the soil improved by his labor. Another sets up

in trade; in the credit founded upon a fair character, he seeks, and often finds, the means of becoming, at length, a wealthy merchant. A third commences business as manufacturer or mechanic, with skill, but without money. It is by credit that he is enabled to procure the tools, the materials, and even the subsistence of which he stands in need, until his industry has supplied him with capital; and, even then, he derives, from an established and increased credit, the means of extending his undertakings.

Among the circumstances which recommend credit, and indicate its importance in the whole system of internal exertion and amelioration, it is impossible to pass, unnoticed, its unquestionable tendency to moderate the rate of interest—a circumstance of infinite value in all the operations of labor and industry.

If the individual capital of this country has become more adequate to its exigencies than formerly, it is because individuals have found new resources in the public *credit*—in the funds to which that has given value and activity. Let public credit be prostrated, and the deficiency will be greater than before. Public and private credit are closely allied, if not inseparable. There is, perhaps, no example of the one being in a flourishing, where the other was in a bad state. A shock to public credit would, therefore, not only take away the additional means which it has furnished, but by the derangements, disorders, distrusts, and false principles which it would engender and disseminate, would diminish the antecedent resources of private credit.

The United States possess an immense mass of improvable matter; the development of it, continually making, may be said to enlarge the field of improvement as it progresses; and, though the active capital of the country has, no doubt, considerably increased, it is probable that it does not bear, at present, a much greater proportion to the objects of employment than it has done at any former period. Credit, upon this hypothesis, of every kind, is nearly as necessary to us now, as it ever was. But, at least, it may be affirmed with absolute certainty that, to a country so situated, credit is peculiarly useful and important.

If the United States observe, with delicate caution, the maxims of credit, as well toward foreigners as their own citizens, in connection with the general principles of an upright, stable, and systematic administration, the strong attractions which they present to foreign capital will be likely to insure them the command of as much as they may want, in addition to their own, for every species of internal amelioration.

Can it be doubted that they would derive from this, in a course of time, advantages incomparably greater than any, however tempting, that could partially result from a disregard of those maxims, or from the exercise of a questionable right, which should even appear to derogate from them?

Credit is an *entire* thing. Every part of it has the nicest sympathy with every other part; wound one limb, and the whole tree shrinks and decays.

The security of each creditor is inseparable from

the security of all creditors. The boundary between foreigner and citizen would not be deemed a sufficient barrier against extending the precedent of an invasion of the rights of the former to the latter. The most judicious and cautious would be most apt to reason thus, and would only look for stronger shades of apparent necessity or expediency to govern the extension. And, in affairs of credit, the opinion of the judicious and cautions may be expected to prevail. Hence the government, by sequestering the property of foreign citizens in the public funds at the commencement of a war, would impair, at least, if not destroy, that credit which is the best resource in war.

It is in vain to attempt to disparage credit by objecting to its abuses. What is there not liable to abuse or misuse? The precious metals, those great springs of labor and industry, are also the ministers of extravagance, luxury, and corruption. Commerce, the nurse of agriculture and manufactures, if overdriven, leads to bankruptcy and distress. A fertile soil, the principal source of human comfort, not unfrequently begets indolence and effeminacy. Even liberty itself, degenerating into licentiousness, produces a frightful complication of ills, and works its own destruction.

It is wisdom, in every case, to cherish whatever is useful, and guard against its abuse. It will be the truest policy of the United States to give all possible energy to public credit, by a firm adherence to its strictest maxims; and yet to avoid the ills of an excessive employment of it by true economy and

system in the public expenditures; by steadily cultivating peace; and by using sincere, efficient, and persevering endeavors to diminish present debts, prevent the accumulation of new, and secure the discharge, within a reasonable period, of such as it may be at any time matter of necessity to contract. It will be wise to cultivate and foster private credit by an exemplary observance of the principles of public credit, and to guard against the misuse of the former by a speedy and vigorous administration of justice, and by taking away every temptation to run in debt, founded in the hope of evading the just claims of creditors.

As an honorable evidence of this disposition, and with a view to quite the alarms which have been excited, and to silence forever a question which can never be agitated without serious inconvenience, the Secretary of the Treasury, in the last place, respectfully submits:

That there be an express renunciation, by law, of all pretension of right to tax the public funds, or to sequester, at any time, or on any pretext, the property which foreign citizens may hold therein.

This will be particularly essential to the success of the plan for converting the foreign into domestic debt; as the present contracts for the Amsterdam and Antwerp debt contain an equivalent stipulation, and there is no prospect that the creditors would consent to a change, but upon the condition of a like stipulation.

In the commencement of this report, it was the intention to submit some propositions for the im-

provement of the several branches of the public revenue; but it is deemed advisable to reserve this part of the subject for a future communication.

All which is respectfully submitted.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*[1]

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## IMPROVEMENT OF THE REVENUE

Communicated to the House of Representatives, February 2, 1795.

TREASURY DEPARTMENT, January 31, 1795.

The Secretary of the Treasury respectfully makes the following report to the House of Representatives:

According to the present laws, imposing duties on articles imported into the United States, not much short of one third of the whole amount of the duties is derived from articles rated *ad valorem*.

In other nations, where this branch of revenue, as with us, is of principal or very considerable consequence, and where no peculiarity of situation has tended to keep the rates of duty low, experience has led to contract more and more the number of articles rated *ad valorem*, and of course to extend the number

[1] This report was Hamilton's last message to the American people in closing his career as Secretary of the Treasury. It is quite as able as the first report, but less known because the first portion involves so many details. It reviews the whole financial policy in a masterly manner, and the last part, which deals with the taxation of public funds and their sequestration in case of war, is an appeal and an argument in behalf of a high public credit, especially with reference to the United States, which has never been surpassed. The high tone of the views set forth and the eloquence and even fervor of the reasoning make it one of the greatest among Hamilton's many great State papers.

of those rated specifically, that is, according to weight, measure, or other rule of quantity.

The reason of this is obvious. It is to guard against evasions which infallibly happen, in a greater or less degree, where duties are high. It is impossible for the merchants of any country to have manifested more probity than those of the United States, on this subject; and it is firmly believed, that there never was one in which illicit practices, to the disadvantage of the revenue, have obtained so little as hitherto in this; yet it would be a delusive expectation that, with duties so considerable as those which now exist, a disposition will not be experienced, in some individuals who carry on our import trade, to evade the payment of them, and this to an extent sufficient to make it prudent to guard with circumspection, and by every reasonable precaution, against the success of such attempts. It is needless to repeat, that this will contribute as much to the interest of the fair trader, as to that of the revenue.

It is believed that, in our system, the method of rating *ad valorem* could, with convenience, be brought within a much narrower compass; and it is evident that, to do so, will contribute materially to the security of the revenue.

The Secretary has not hitherto had leisure to digest the details of a plan for this purpose; but, if the idea is approved, it can be carried with due accuracy into effect, at a future session, by an order upon the head of this Department to prepare, in the meantime, a tariff proportioned to the actual rates of duty.

It may also be found expedient, with a similar

view, to adjust anew the proportional rates of duty, of different kinds or qualities, of certain articles. This observation is believed to apply, with particular force, to teas. It would be, in the opinion of the Secretary, advisable to throw them into three classes: to raise somewhat the lowest rate, and to diminish considerably the higher rates. A persuasion is entertained, founded partly upon observation of the course of importations, that a regulation of this kind would benefit the revenue. The same thing might be conveniently extended to some other articles.

Advantages will also accrue from a re-adjustment of the rates, in certain cases, by combining several rates on the same articles, established by different acts, into one rate, and by dismissing inconvenient fractions, which serve to perplex the calculation of the duties. Some alteration in the terms of credit for duties may, it is conceived, be made with advantage. Where four months are allowed, three and six months may be substituted; and three, six, nine, and twelve, or even three, six, nine, twelve, and fifteen, to the cases of six, nine, and twelve months. This will apportion the course of receipts more according to the course of payments, and prevent inconvenient pressures at particular junctures.

The compensations to inspectors, especially in the ports where the expense of living is great, and to collectors and surveyors in the less productive ports, urgently demand revision, in order to an increase of them.

The security of the revenue, in every branch, turns (it will not be too strong to say) principally upon the

officers of the lowest grade. Hence, it is a policy no less mistaken than common, to leave those officers without such compensations as will admit of a proper selection of character, and prevent the temptation, from indigence, to abuse the trust. It is certain that, in many places, the present allowance to inspectors, on the most liberal application of it, is inadequate to those important ends.

A similar reasoning will apply to those officers of the principal grades who, being in districts which produce little, are ill compensated by the emoluments to which they are at present entitled. It cannot escape observation, that the safety of the revenue must depend on equal fidelity and due vigilance in all the districts; else it may become, in many cases, worth the while to resort to particular districts, because there is a deficiency of the one or the other. Besides that, it is in itself just and proper that all who are in the public service should receive adequate rewards for their time, attention, and trouble.

The aggregate expense of collecting the duties on impost and tonnage is at present truly moderate—a circumstance which facilitates the extension of allowances where they are necessary. The system of the revenue cutters needs revision. The utility of every institution depends on the competency of the agents who are to execute it. The present compensations to officers and men, compared with what may be obtained in other similar employment, unaided by collateral motives, creates a degree of embarrassment which very much impairs the usefulness of the thing. It would have been, in the judgment of the Secretary,

a great means of rendering it competent to its object, if, as was early suggested by him, the officers of the customs had had rank in the navy of the United States.

With regard to that branch of revenue which is constituted by the duties upon spirits distilled within the United States, and upon stills, it is believed that it would be an improvement, and one which could be now made without inconvenience, to abolish the option to pay by the gallon of the spirits distilled, in the cases where the duties are charged on the stills. This will leave the alternative of paying by the year, or for less periods, upon licenses, at the choice of the party; an alternative which affords sufficient accommodation to the difference of circumstances. The option to pay by the gallon of the spirits distilled, according to an account to be rendered on the oath of the party, though expedient in the first experiment of the law, is objectionable, as a permanent regulation, in a double view.

The additional discretionary latitude given to compensations to the officers concerned in the collection of those duties, is restricted to a term which will expire at the end of the next session of Congress. It will be essential to extend it, or to fix the compensations which will have been allowed. It is believed that further experience will still be useful towards a definitive legislative adjustment.

Embarrassments are experienced from the want of a concurrent authority in these officers, similar to that of the officers of the customs, to make seizures within each other's surveys or divisions. On the

borders of such as are adjacent, the officers are exposed to hazard in making seizures, and better opportunities are afforded of escaping detection.

The revenue to result from the act of the last session, laying duties upon licenses to retailers of wines and distilled spirits, may be improved, favorable to proportional equality, by changing the form.

One license, for selling one or more kinds of wines, puts the greatest and the smallest dealer upon the same footing, and is so far inequitable. To class wines into a few obvious and strongly marked discriminations, and to render a license necessary for each class, with a duty upon each license, would favor a just distribution of the tax among great and small dealers, and would, at the same time, benefit the revenue. The classes may be as follows: 1st. Madeira wine. 2d. Sherry wine. 3d. Port wine. 4th. Other wines.

To secure the effect of the discrimination in favor of small dealers, who may be in the practice of selling and sending out different kinds of wines in small quantities, it may be provided that not more than one license shall be necessary to any dealer who never sells or sends out at one time more than three gallons. And suitable penalties may be annexed to guard the condition of the exemption.

Similar observations are applicable to licenses to retailers of spirituous liquors. These may be thrown into three classes: 1st. Spirits distilled from the grape, commonly called brandy. 2d. Spirits distilled from the produce of the sugar cane, commonly called rum. 3d. Other distilled spirits; and there

may be a like provision in favor of dealers who never sell or send out more than three gallons at one time.

Distillers may be put, in this respect, as to the spirits they distil, upon the same footing with importers; that is, they may be exempt from the license duty, but it would seem proper to annex these conditions to the exemption, that they shall not sell and send out a less quantity, in one cask, vessel, or package, than ten gallons; and that they shall not deal in the selling at retail of any other spirits than those they themselves distil.

Or another rule may be adopted, for proportioning the tax to the extent of the dealing; which is, to add to the present rate of the license certain supplemental rates, according to the yearly rent or yearly value, by appraisement, of the house or building in which the retailers of wines or spirituous liquors shall carry on the business.

This has been found, in practice, a convenient, and, upon the whole, an equitable rule of proportion; evidently more so than one license with the same duty to all dealers indiscriminately.

It is a general and a wise national policy to make these articles of wine and spirits as contributory to the revenue as can be made; which can only be effected by subdividing the duties upon them in the different stages of their passage to the consumer. The branch under consideration might be an important one. As it is now regulated it is feared that it may prove of inconsiderable consequence. The confining of the license for selling spirituous liquors

to foreign spirits, must give great facility to evasions. And it has an unequal operation upon different portions of the community.

It would promote the object of the act, which imposes duties on sales at auction, to allow two and a half per centum to each auctioneer, in lieu of the one per centum allowed by the ninth section of that act. It is believed that the present allowance is insufficient to defray the expenses of clerkship incident to a compliance with the requisitions of the law, which cannot be rendered less particular or exact without prejudice to the revenue.

The tax upon snuff, according to a rate per pound, will be liable to very great evasions, without regulations for a close inspection of the course of the business. Dispensing with these, it seems advisable to modify the tax upon a different plan. The proposition to lay it upon the mortar is as good a substitute as has occurred. It appears, upon evidence which is credited, that a snuff mill usually works about one half the year; that is, one hundred and fifty-six working days in a year; and yields, per mortar, of the whole number of mortars contained in a mill, an average of forty-five pounds of snuff per day. It follows that five hundred and sixty-one dollars at sixty-six cents per mortar, per annum, is the equivalent of the present duty of eight cents per pound. There are objections to this form of the tax; but, as it appears to be generally desired by the manufacturers, it seems advisable to forego them; especially as the present plan demands far more rigorous precautions for the effectual collection of

the duty than now exist, or than would be deemed expedient.

A similar difficulty attends the tax upon refined sugar; but a proper substitute for the present plan is not perceived. It will fortify the revenue, and produce no undue inconvenience to the manufacturer, if he be required to annex a ticket or tickets to each loaf of sugar, specifying the weight in pounds; and to each cask, barrel, keg, box, or other package of refined sugar, specifying the contents and weight in pounds, corresponding certificates or tickets to accompany imported refined sugar. The kinds of tickets to be furnished by the respective supervisors, and accounted for to them. The observance of this regulation to be secured by proper penalties.

The act which lays a duty on carriages for the conveyance of persons, exempts from the duty carriages *usually* and *chiefly* employed in husbandry, and in carrying commodities. It is a material defect in this act, as has been already experienced, that it provides no summary mode for determining what carriages are within the exempting description. Now, every disputed case must be the subject of a suit in all the legal forms; which is equally objectionable on the score of delay and expense. It is not perceived that any insurmountable difficulty lies in the way of providing a remedy consistently with a due reference, in the last resort, to the judiciary authority.

In revenue laws, too much is as great a fault as too little simplicity. It leaves them unprovisional; incapable of execution in a manner convenient either to the public or to individuals. The acts imposing

duties on licenses for selling wines and spirituous liquors at retail, and upon sales at auction, authorize allowances not exceeding two and a half per cent. for compensation to officers, and for incidental expenses. The acts laying duties upon carriages for the conveyance of persons, and upon snuff and refined sugar, make no provision for such compensations, or other expenses of collection. It is the opinion of the Secretary that the rate of two and a half per cent., in the two first mentioned acts, is inadequate—that it ought to be extended to five per cent., and that an equal provision should be made for the expense of collection, under the two last-mentioned acts.

The restrictions upon officers of the customs, and upon the supervisors and other officers of inspection, with regard to the public funds, appear to the Secretary unnecessary and inconvenient: unnecessary, because those officers, having no concern whatever with any branch of public business that respects the management of the funds, can have no official influence upon the policy or execution of the measures which regard them, further than by a punctual collection of the revenues; inconvenient, because it deprives them of a means of investing any little sums they may save or acquire, in a mode very convenient to men who, from situation, are less liable to avail themselves of other opportunities. If the being stockholders can have any influence upon them as officers, it must be of a kind favorable to the public service, by increasing their personal interest in the exact collection of the revenue. If the idea which dictated the restrictions was, that they might use

the public money in speculations in stock, the answer is, that this is not in their power, from the rapidity with which it is transferred to the treasury; and if it were practicable for them to divert the public money, and a disposition to do it should, in any case, exist, it might operate through other channels. In lieu of the restrictions concerning the funds, the employment of public money for private purposes, may, if thought necessary, be still further guarded against by penalties. Those restrictions in reference to the immediate officers of the Treasury Department, and the Commissioners of Loans, are entirely proper, and ought to be maintained; but it is believed that it is not only useless, but injurious, to give them greater extension. The multiplication of restrictions on the public officers will render greater compensations necessary, and be a source of expense to the public.

All which is respectfully submitted.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*[1]

NOTE.—Since the conclusion of this report, the Secretary has learnt that a bill (the progress of which his peculiar situation had prevented his observing) has actually passed the two Houses, for changing the terms of six, nine, and twelve months, into eight, ten, and twelve. This bill, besides interfering disadvantageously with arrangements of the treasury, founded upon the existing provisions of the laws, will, it is apprehended, tend to increase an inconvenience which the above suggestions were meant to lessen—the too great concentration of mercantile payments. Any accidental derangement of the mercantile body, from over-trading, or other cause, would, in this situation, endanger consequences to the treasury, which it might be difficult to meet by other expedients; whereas, a subdivision into shorter and more numerous periods, by diminishing the effect, would admit, in such cases, of an easy substitute. The merchants themselves are

[1] This brief report is full of pregnant and valuable suggestions.

particularly interested in this question; for the reaction upon them, of any embarrassment of the treasury, might render that a general and lasting mischief, which might otherwise have been only a partial and transient disorder.

## BUILDING TAX

PLAN SENT TO OLIVER WOLCOTT, SECRETARY OF THE TREASURY, JUNE 7, 1797

A million of dollars per annum on buildings and lands on the following plan:

1st. Upon inhabited dwelling-houses thus:—

Upon every such house of the denomination and description of a log house, at the rate of 20 cents for each room or apartment thereof, exclusive of garret and cellar.

Upon every other inhabited dwelling-house of two rooms or apartments, exclusive of halls or entries, garrets and cellars, at the rate of 25 cents for each room or apartment.

Upon every such house of three rooms or apartments, exclusive as before, at the rate of 33⅓ cents for each room or apartment.

Upon every such house of four rooms, exclusive as before, at the rate of 40 cents for each room or apartment.

Upon every such house of five rooms, exclusive as before, at the rate of 60 cents for each room or apartment.

Upon every such house of six rooms, exclusive as before, at the rate of 75 cents for each room or apartment thereof.

Upon every such house of seven rooms and upwards, at the rate of 100 cents for each room, etc.

*Remarks.*—These rates have been adjusted by applying their operations to a number of houses, from which it appears that they find a sufficiently exact proportion to the rent, and they avoid the expense and uncertainty of valuation. Other circumstances of discrimination, if thought advised, may be added.

Upon every room in a garret or cellar of a house of the foregoing descriptions, having a fireplace, and upon any kitchen, whether in a cellar or adjacent building, at the rate of 20 cents for each room or kitchen.

Upon each room or apartment of every such house painted inside, the further sum of 25 cents.

Upon each room or apartment of such house papered inside, or painted and bordered with paper, the further sum of 50 cents.

Upon every chimney, faced with tiles or cut stone other than marble, the further sum of 50 cents.

Upon every chimney faced with marble, the further sum of 100 cents.

Upon every staircase of cedar or ebony wood, the further sum of 50 cents.

Upon every staircase of mahogany wood, the further sum of 100 cents.

Upon every room or apartment with stucco cornices, the further sum of 100 cents.

Upon every room with a stucco ceiling, the further sum of 200 cents; but the same room shall not also be rated for cornices of such work.

Upon every such house with pillars or pilasters outside in front, the further sum of 100 cents.

Upon every such house faced outside and in front, in whole or in part, with marble, the further sum of 200 cents.

These rates to be paid by the occupiers of the house, whether owners or tenants. When a house is let by parcels the landlord to be deemed the occupier.

Upon all stone houses not being parts of dwelling-houses in use, at the rate of one fortieth part of the yearly value, to be determined by the actual rent, if rented, and if not by an estimate or valuation thereof.

Upon all grist-mills, at the rate of 125 cents for each run of stone therein.

Upon all saw-mills at the rate of 50 cents for each saw usually worked therein, not exceeding three, and for each saw above that number 25 cents.

Upon all wharves in the cities and towns of Portsmouth, Boston, etc., (enumerating the principal towns,) at the rate of 12½ cents for each foot in front thereof.

Upon all wharves in any other city or town at the rate of 6 cents.

*Remarks.*—Or this may be thrown into classes.

Upon all lumber yards in the cities or towns of Portsmouth, Boston, etc., (enumerating the principal towns,) at the rate of 2½ cents for each hundred square feet.

Cottages inhabited by paupers to be excepted, to be judged of and ascertained by the assessors hereinafter described.

The amount of the foregoing taxes in each State, to be ascertained within a time to be limited by law for that purpose by the assessors, and a report thereof to be made to the Treasury, which shall then proceed to apportion, according to the prescribed quota, the sum remaining to make up the million of dollars to be levied.

For example, suppose there were five States, and the product of the house-tax of each as follows:

| | |
|---|---|
| A. | $100,000 |
| B. | 150,000 |
| C. | 200,000 |
| D. | 50,000 |
| E. | 100,000 |
| | $600,000 |

There would then remain toward the million to be levied on lands $400,000. Let there be then assigned to each State so much in land-tax as together with its house-tax will equal the [The paper is incomplete.]

*Remarks.*—The mode of ascertaining to be by an actual calling at each house, and receiving of the occupiers a list of the particulars which are criterions of the tax; the officer to have power to administer an oath.

A proper penalty to be annexed to misrepresentation, and a power to be given upon cause of suspicion testified on oath, to issue a warrant to inspect the house for ascertaining the fact. This will reconcile the idea of the sanctity of the castle with the security of the revenue.

# NATIONAL BANK

# NATIONAL BANK

## HAMILTON TO ROBERT MORRIS, 1780[1]

SIR:—The present conjuncture is by all allowed to be peculiarly critical. Every man of reflection employs his thoughts about the remedies proper to be applied to the national disorders; and every one, from a partiality to his own ideas, wishes to convey them to those who are charged with the management of affairs. The channel of the public papers, commonly made use of for the purpose, appears to me exceptionable on several accounts. It not only

[1] This letter was written while Hamilton was still serving in the Revolutionary army. The struggle for independence was in danger of being wrecked by financial difficulties and Robert Morris had just undertaken those labors which, by his skill and energy, saved the cause of the Colonies. Hamilton, with his mind running on questions of government and finance, and satisfied that civil, political, and financial measures were really more essential than even military campaigns, desired most earnestly to help Morris, whom he greatly liked and respected. This letter was the result; a very extraordinary performance for a young man of twenty-three, whose life had been spent in college and camp. The natural genius of the financier and statesman shine out strongly. This is in fact the first of the arguments which led to the foundation of the national banking system of the United States. The others follow. Nothing has been omitted except a draft of a charter for the Bank of New York, 1786, and one of a charter for the Merchants' Bank of New York, 1803, which throw no light on Hamilton's opinions or on the development of the principles which were by his efforts, embodied in legislation.

restrains a freedom of discussion, from the extreme delicacy of the subject, but the discussion itself increases the evil, by exposing our weak sides to the popular eye, and adding false terrors to those well-founded apprehensions which our situation authorizes.

Instead of pursuing this method, I prefer addressing myself to a member of that body, in whose power alone it is, by well-digested system, to extricate us from our embarrassments. I have pitched upon you, from a personal knowledge of your abilities and zeal. If I offer anything new and useful, I am persuaded you will endeavor to turn it to advantage. If the contrary is the case, I am, at least, doing no harm. I shall only have had the trouble of writing, and you of reading, a few useless pages.

The object of principal concern is the state of our currency. In my opinion, all our speculations on this head have been founded in error. Most people think that the depreciation might have been avoided by provident arrangements in the beginning, without any aid from abroad; and a great many of our sanguine politicians, till very lately, imagined the money might still be restored by expedients within ourselves. Hence the delay in attempting to procure a foreign loan.

This idea proceeded from an ignorance of the real extent of our resources. The war, particularly in the first periods, required exertions beyond our strength, to which neither our population nor riches were equal. We have the fullest proof of this in the constant thinness of our armies, the impossibility, at

this time, of recruiting them otherwise than by compulsion, the scarcity of hands in husbandry and other occupations, the decrease of our staple commodities, and the difficulty of every species of supply. I am aware that the badness of the money has its influence; but it was originally an effect, not a cause, though it now partakes of the nature of both. A part of those evils would appear were our finances in a more flourishing condition. We experienced them before the money was materially depreciated; and they contributed to its depreciation. The want of men soon obliged the public to pay extravagant wages for them in every department. Agriculture languished from a defect of hands. The mechanic arts did the same. The price of every kind of labor increased, and the articles of foreign commerce, from the interruption it received, more than kept pace with other things.

The relative value of money being determined by the greater or less portion of labor and commodities which it will purchase; whatever these gained in price, that of course lost in value.

The public expenditures, from the dearness of everything, necessarily became immense; greater in proportion than in other countries; and much beyond any revenues which the best concreted scheme of finance could have extracted from the natural funds of the State. No taxes, which the people were capable of bearing, on that quantity of money which is deemed a proper medium for this country (had it been gold instead of paper), would have been sufficient for the current exigencies of government.

The most opulent states of Europe, in a war of any duration, are commonly obliged to have recourse to foreign loans or subsidies.[1] How, then, could we expect to do without them, and not augment the quantity of our artificial wealth beyond those bounds which were proper to preserve its credit? The idea was chimerical.

The quantity of money formerly in circulation among us is estimated at about thirty millions of dollars. This was barely sufficient for our interior commerce. Our exterior commerce was chiefly carried on by barter. We sent our commodities abroad, and brought back others in return. The

[1] France owes a debt of near two hundred million of pounds sterling; of which about twenty-eight millions is due to governments and individuals in the United Provinces.

England owes a debt not much short, of which about thirty millions is likewise due to the United Provinces.

The United Provinces, themselves, owe a debt of the generality of fifty millions sterling, besides the particular debts of each province. Russia, Prussia, Denmark, Sweden, all owe money to the United Provinces, notwithstanding the assistance of their mines. These governments, too, are patterns of economy. Sweden receives a constant supply from France. The House of Austria is also to be included in the catalogue. Spain is almost the only considerable European power to be excepted; but this is to be attributed to that inexhaustible fund of treasure which she possesses in the mines of South America.

The King of Prussia is one of those potentates the least in debt notwithstanding he has a long time made a figure in Europe, much above what the comparative strength and resources of his kingdom entitled him to expect. This his superior genius has effected. By a wise administration, he maintains an army of one hundred and fifty thousand men, nearly equal to that of France, with one third of its people, and less than a third of its riches. This he does by judicious arrangements, by a rigid economy, and by a species of commerce, which is carried on, on account of the state. There are several public manufactories, from which the army is supplied, and by the help of which the money paid out with one hand is taken in by the other.

balance of the principal branch was against us, and the little *specie* derived from others was transferred directly to the payment of that balance, without passing into home circulation. It would have been impracticable, by loans and taxes, to bring such a portion of the forementioned sum into the public coffers as would have answered the purposes of the war; nor could it have spared so considerable a part, without obstructing the operations of domestic commerce. Taxes are limited, not only by the quantity of wealth in a state, but by the temper, habits, and genius of the people; all which, in this country, conspired to render them moderate; and as to loans, men will not be prevailed upon to lend money to the public when there is a scarcity, and they can find a more profitable way of employing it otherwise, as was our case.

The ordinary revenues of the United Provinces amount to about twenty-five millions of guilders; or two millions two hundred and fifty thousand pounds sterling per annum. This is, on proportion to its territory and numbers, the richest country in the world; and the country where the people sustain the heaviest load of taxes. Its population is about equal to ours, two millions of souls. The burthens on the subject are so great that it is by some held most impracticable, even on extraordinary emergencies, to enlarge the revenues by new impositions. It is maintained, their dependence, in these cases, must be on the extraordinary contributions of wealthy individuals; with the aid of which, in some of their wars, they have raised four millions sterling a year.

In a country possessed of so vast a stock of wealth, where taxes are carried to such a height, and where the means of paying them so infinitely exceed those in our power, if the national revenues only amount to the sum I have stated, how inadequate must have been the product of any taxes we could have levied, to the demands of the service! Loans, for the reason before hinted, would have been out of the question; at least, they would have been so trifling as to be an object of little importance. Suppose we should have been able to raise a million sterling, annually; a sum that probably would have exceeded our ability; how unequal would this have been to our wants![1] No economy could have made it bear any proportion, especially if we recur to the causes already enumerated, by which the currency depreciated in its first stages.

From these reasonings it results, that it was not in the power of Congress, when their emissions had arrived at the thirty millions of dollars, to put a stop to them.[2] They were obliged, in order to keep up the supplies, to go on creating artificial revenues by new emissions; and as these multiplied, their value declined. The progress of the depreciation might have been retarded, but it could not have been prevented. It was, in a great degree, necessary.

[1] This will appear, by recurring to our expenses in the commencement of the war, before the money was depreciated. In '75, which was only three fourths of a year, the emissions amounted to seven millions of dollars; in '76, to fourteen millions. The war did not begin, in earnest, till '76.

[2] This is meant, without employing the assistance of a foreign loan, and of other expedients beside borrowing and taxing.

There was but one remedy; a foreign loan. All other expedients should rather have been considered as auxiliary. Could a loan have been obtained, and judiciously applied, assisted by a vigorous system of taxation, we might have avoided that excess of emissions which has ruined the paper. The credit of such a fund would have procured loans from the moneyed and trading men within ourselves; because it might have been so directed, as to have been beneficial to them in their commercial transactions abroad.[1]

The necessity for a foreign loan is now greater than ever. Nothing else will retrieve our affairs. The wheels of government, without it, cannot much longer be kept in motion. Including loan-office certificates, and State emissions, we have about four hundred millions of dollars in circulation. The real value of these is less than seven millions, which is the true circulating medium of these States: for though the price of specie is
and the rate of exchange for sterling bills
the nominal value of every commodity is at least sixty to one, on an average. All the reasonings against the possibility of raising the current expenses on the foundation of thirty millions, apply to our present situation in the ratio of thirty to seven; that is, it is as thirty to seven less practicable now than when our emissions amounted to only thirty millions. Could every dollar in circulation be brought annually into the Treasury, which never was effected in any country, and is politically

[1] This will appear from the plan which will be proposed.

impossible, the revenue would not be equal to the yearly expense.

The hope of appreciating the money, by taxes and domestic loans, is at an end. As fast as it could be received, it must be issued in the daily expenditures. The momentary interval between its being drawn out of circulation and returning into it, would prevent its receiving the least advantage.

These reasonings may appear useless, as the necessity of a foreign loan is now acknowledged, and measures are taking to procure it. But they are intended to establish good principles; the want of which has brought us to the desperate crisis we are arrived at, and may still betray us into fatal mistakes.

How this loan is to be employed is now the question; and its difficulty equal to its importance. Two plans have been proposed: one, to purchase at once, in specie or sterling bills, all superfluous paper; and to endeavor, by taxes, loans, and economy, to hinder its returning into circulation. The remainder, it is supposed, would then recover its value. This, it is said, will reduce our public debt to the sterling cost of the paper.

Suppose two hundred millions were to be purchased, and the rest called in by taxes. At this would require bills to the amount of of dollars. But I doubt whether four times this sum would be sufficient. The moment it was known such purchases were to be made, the avarice of the speculators would begin to operate: the demand would immediately occasion an artificial apprecia-

tion; each successive million would cost more than the preceding. But this appreciation would be more relative to the purchasing medium than to the prices of commodities. The raising the value of the paper relative to the former, would depend on the combination of a few artful individuals, and would be easily accomplished. The diminution of prices must be slow, as it implies a change in the sentiments of the body of the people with respect to the money. A sudden revolution in the general rates of all the necessaries of life is not to be expected. The prices of these, as they have reached their present summit by degrees, must, by degrees, revert to their former station. The minds of the people will not readily admit impressions in favor of the currency. All their past experience has given a habit of diffidence; and the epidemical spirit of extortion will maintain a violent struggle with whatever has a tendency to produce a fall of prices. A permanent reduction of the quantity of circulating cash, will alone gradually effect it. But this will not happen on the present plan.

The necessity of continuing the supplies at nearly the same rates now given (which would be the case if my reasonings are true), would have nearly the same effect mentioned with respect to taxes and domestic loans. The money would return into circulation almost as fast as it was drawn out; and at the end of the year we should find our treasury empty, our foreign loan dissipated, and the state of our finances as deplorable as ever. At a moderate calculation, we should have spent ten or twelve millions

of real dollars, for the sole purpose of carrying on the war another year. It would be much better, instead of purchasing up the paper currency, to purchase the supplies out of our specie or bills. In the first instance, the public would suffer a direct loss of the artificial appreciation, relative to the purchasing medium; in the last, it would buy at the value of the commodities in specie or bills.

A great source of error in disquisitions of this nature, is the judging of events by abstract calculations; which, though geometrically true, are false as they relate to the concerns of beings governed more by passion and prejudice than by an enlightened sense of their interests. A degree of illusion mixes itself in all the affairs of society. The opinion of objects has more influence than their real nature. The quantity of money in circulation is certainly a chief cause of its decline; but we find it is depreciated more than five times as much as it ought to be by this rule. The excess is derived from opinion; a want of confidence. In like manner we deceive ourselves, when we suppose the value will increase in proportion as the quantity is lessened. Opinion will operate here also; and a thousand circumstances may promote or counteract the principle.

The other plan proposed is to convert the loan into merchandise, and import it on public account. This plan is incomparably better than the former. Instead of losing on the sale of its specie or bills, the public would gain a considerable profit on the commodities imported. The loan would go much further this way, in supplying the expenses of the war; and

a large stock of valuable commodities, useful to the army and to the country, would be introduced. This would affect the prices of things in general, and assist the currency. But the arts of monopolizers would prevent its having so extensive and durable an influence as it ought to have.

A great impediment to the success of this, as well as the former scheme, will be the vast sums requisite for the current expenses. The arguments adduced in the former case are applicable here also, though not with equal force. The necessity the public will be under of parting with its stock to defray the daily demands, will give designing men an opportunity, by combinations not to purchase, to oblige it to sell at a rate below the real value of money. This they may the more easily effect, as the demand for foreign commodities is much less than formerly, on account of the general spirit of parsimony which has obtained from necessity, and the manufactures carried on in private families for their own use. The greatest part of the country people now almost entirely clothe themselves.

The public must either sell very cheap, to collect rapidly the superfluous paper in hopes of raising the value of the remainder; or it must sell very slow, to preserve the due proportion between the articles it has for sale and those it wants to buy. By pursuing the first method, it will soon exhaust its stock at a very considerable loss, and only give temporary relief to the currency. According to my principle, though it sells cheap, it must still buy dear; and, consequently, the money collected cannot remain in

the treasury long enough to preserve the rise in its appreciated state. If it pursues the second method, the expenditures will be equal to the income; and though the public will make the natural profits on its goods, as it will lay up nothing, it will do nothing towards the appreciation.[1]

The farmers have the game in their own hands, and will make it very difficult to lower the prices of their commodities. For want of laborers, there is no great superfluity of the most essential articles raised. These are things of absolute necessity, and must be purchased, as well by the other classes of society as by the public. The farmers, on the contrary, if they do not like the price, are not obliged to sell; because they have almost every necessary within themselves,—salt, and one or two more, excepted, which bear a small proportion to what is

[1] To form an idea of the effect of this plan, let it be supposed that the goods imported amount to two millions of pounds sterling, and that these sell at one hundred and fifty pounds in paper, for each pound sterling. The whole proceeds will be eight hundred millions of dollars; to these add two hundred millions, raised in taxes. There will then be in the hands of the public one thousand millions of dollars; which, at sixty to one, gives sixteen millions six hundred and sixty-six thousand six hundred and sixty-six and two thirds of real dollars. Take the year '76 for a standard, and suppose fourteen millions of dollars to be the proper annual expense of the war, which is only two millions six hundred and sixty-six thousand six hundred and sixty-six and two thirds less than the whole amount of the goods and taxes. At this rate, the plan would do little more than defray the expenses of the war for one year. But this calculation is not exactly true; because the money would certainly appreciate, in some degree, by the reduction of its quantity; yet, as this reduction would not last, at least in the same extent, to preserve the appreciation, and as, in proportion to the appreciation, the price of goods must fall, and bring less money in, it is difficult to say whether it would not ultimately come to the same thing.

wanted from them, and which they can obtain, by barter, for other articles equally indispensable. Heavy taxes, it may be said, will oblige them to sell; but they can pay, with a small part of what they have, any taxes our Legislatures will venture to impose, or would be able to enforce.

One measure, alone, can counterbalance these advantages of the farmers, and oblige them to contribute their proper quota to the support of government: a tax in kind.

This ought instantly to begin throughout the States. The present quantity of cash, though nominally enormous, would, in reality, be found incompetent to domestic circulation, were it not that a great part of our internal commerce is carried on by barter. For this reason, it is impossible, by pecuniary taxes, to raise a sum proportioned to the wants of the State. The money is no longer a general representative; and when it ceases to be so, the State ought to call for a portion of the thing represented; or, in other words, to tax in kind. This will greatly facilitate whatever plan of finance is adopted; because it will lessen the expenditures in cash, and make it the easier to retain what is drawn in.

I said the demand for foreign goods is less than it formerly was. I mean there is not a demand for so large a quantity, which the reasons already assigned clearly demonstrate; nor are the exorbitant rates now given any objection to this doctrine. There is an absolute scarcity even in comparison of the present consumption; and, of course, a demand for what there is. But should an importation of two

millions sterling take place, the market would be glutted; and there would be no way of keeping up the price, but by making very slow sales. A less quantity would stand no chance of calling in the money, and keeping it in long enough to effect anything in favor of its credit.

I say nothing about the risk of importation. I do not believe we could obtain a convoy sufficient to justify our hazarding it without the precaution of insurance. But with this expedient we are safe, and must be satisfied with smaller profits for the sake of security.

This is a plan not altogether to be rejected. With prudent management it might enable us to carry on the war two or three years (which, perhaps, is as long as it may last); but if we should expect more from it, the restoration of the currency, we should be disappointed.

The only plan that can preserve the currency is one that will make it the *immediate* interest of the moneyed men to co-operate with government in its support. The country is in the same predicament in which France was previous to the famous Mississippi scheme, projected by Mr. Law. Its paper money, like ours, had dwindled to nothing; and no efforts of the government could revive it, because the people had lost all confidence in its ability. Mr. Law, who had much more penetration than integrity, readily perceived that no plan could succeed which did not unite the interest and credit of rich individuals with those of the state; and upon this he framed the idea of his project, which, so far, agreed

in principle with the Bank of England. The foundation was good, but the superstructure too vast. The proprietors aimed at unlimited wealth, and the government itself expected too much; which was the cause of the ultimate miscarriage of the scheme, and of all the mischiefs that befell the kingdom in consequence.

It will be our wisdom to select what is good in this plan, and in any others that have gone before us, avoiding their defects and excesses. Something on a similar principle in America will alone accomplish the restoration of paper credit, and establish a permanent fund for the future exigencies of government.

Article I. The plan I would propose is that of an American bank, instituted by authority of Congress for ten years, under the denomination of The Bank of the United States.

II. A foreign loan makes a necessary part of the plan; but this I am persuaded we can obtain, if we pursue the proper measures. I shall suppose it to amount to two millions of pounds sterling. This loan is to be thrown into the bank as a part of its stock.

III. A subscription to be opened for two hundred millions of dollars; and the subscribers erected into a company, to be called THE COMPANY OF THE BANK OF THE UNITED STATES.

IV. The government to guarantee this subscription money to the proprietors, at the rate of one for twenty; that is, to engage, at the dissolution of the bank, to make good to them the sum of ten millions

of dollars, in lieu of the two hundred millions subscribed, payable in Spanish milled dollars, or a currency *bona fide* equivalent to them.

V. The taxes raised in money annually, to be thrown into stock.[1]

VI. All the remaining paper to be called in (at the option of the possessor), and bank-notes issued in lieu of them, for so much sterling, payable to the bearer in three months from the date, at two per cent. per annum interest. A pound sterling to be estimated at two hundred and sixty-six and two thirds of the present dollar.[2] The interest to be punctually paid in specie at the end of the three months, when it shall be at the choice of the possessor to have the bank-notes renewed, or to receive the sum deposited in the old paper.

VII. All the money issued from the bank to be of the same denomination, and on the same terms.[3]

VIII. The bank to furnish Congress with an annual loan of two millions sterling, if they have occasion for it, at four per cent. interest.

IX. The whole or such part of the stock as is judged necessary to be employed in commerce, in the manner and on the terms which shall be agreed

[1] The taxes are made to increase every year, for the three years, because the money in circulation increases, and, consequently, the people can afford to pay more.

[2] This is sixty paper dollars to one dollar of four shillings and sixpence sterling, which is the real value of the money. But if it is apprehended that this may meet with opposition, let the valuation of the bank-notes be the same as the price of European bills of exchange. Other operations must be regulated accordingly.

[3] The reason of this is to preserve the idea of a stock, and make it seem that the old paper is still in existence. But there is danger, notwithstanding the reasons to the contrary, that there may be a run

upon from time to time between the company and a Board of Trade to be appointed by Congress.

X. The bank to issue occasionally, by permission of Congress, such sums as may be thought safe and expedient, in private loans, on good securities, at six per cent. interest.

XI. The government to share half the whole stock and profits of the bank.

XII. The bank to be managed by the trustees of the company, under the inspection of the Board of Trade,[1] who may have recourse to the company's books whenever they think proper to examine the state of its affairs. The same is done in England and in other countries where banks are established, and is a privilege which the government has a right to

upon the bank, from particular causes, which may embarrass it. It is not probable the old paper will be entirely, though nearly, called out of circulation; what remains will appreciate; this may tempt those who have bank-notes to demand payment on the terms of the original deposit, without considering that, by bringing too great a quantity again into circulation, it will again depreciate. The bank may be pushed to a very disagreeable extremity by this means. I do not know whether it may not be advisable to confine the privilege of repayment to the lenders to the bank, and make the bills bear interest, payable every three months, without making the principal demandable. Much may be said for and against. It is well worth consideration.

[1] This board ought immediately to be established at all events. The Royal Council of Commerce, in France, and the subordinate Chambers in each province, form an excellent institution, and may, in many respects, serve as a model. Congress have too long neglected to organize a good scheme of administration, and throw public business into proper executive departments. For commerce I prefer a board, but for most other things, single men. We want a Minister of War, a Minister of Foreign Affairs, a Minister of Finance, and a Minister of Marine. There is always more decision, more dispatch, more secrecy, more responsibility, where single men, than where bodies, are concerned. By a plan of this kind we should blend the advantages of a monarchy and of a republic in a happy and beneficial union. Men will

demand for its own security. It is the more necessary in this case, from the commercial nature of the bank.

To give an idea of the advantages—

[Here a part of the manuscript is missing.]

which, having all the operation of money, and of a more advantageous kind than that which the lenders have parted with, will have all the efficacy of a payment. It is for this reason they are made to bear interest; and there can be no doubt that every man will prefer a species of money which answers all the purposes of a currency, and even when lying idle, brings in a profit to the possessor. The same consideration will prevent the lenders recalling the old

only devote their lives and attentions to the mastering a profession, on which they can build reputation and consequence which they do not share with others.

If this plan should be approved Congress ought immediately to appoint a Minister of Finance under whatsoever title they think proper, and charge him with its execution. He ought to be a man of ability to comprehend it in all its consequences; and of eloquence, to make others comprehend and relish it. He ought, beside, to have some general knowledge of the science. This man ought immediately to address himself to some of the most sensible moneyed men, and endeavor to convince them of the utility of the project. These must engage others, and so on, till a sufficient number is engaged.

Then Congress must establish the bank and set it agoing. I know of no man that has better pretensions than yourself; and I shall be very happy to hear that Congress have said: "Thou art the man."

I had like to have omitted one remark, which is, that the subscription money may be guaranteed, if necessary, at ten to one, as a greater inducement. This will only be twenty millions of dollars, or five millions of pounds sterling; a cheap bargain to get rid of the perplexities we labor under, and convert the torrent of ideal money into a moderate but sufficient stream to supply the real wants of the State. Congress, no doubt, would be able to borrow enough abroad to pay this debt, if it should not find better means within itself. But I shall be much mistaken if the proprietors will desire to be repaid, and not prefer continuing the loan to government on reasonable terms.

paper at the quarterly payments; because they hold a more valuable property instead of it. The interest is to be paid in specie, as a further temptation, for which a small sum will suffice. The denomination of the money is altered; because it will produce a useful illusion. Mankind are much led by sounds and appearances; and the currency having changed its name will seem to have changed its nature.

The bank will advance bills to the amount of two million of pounds sterling to Congress; and, in addition to its stock, will now have a debt due it of this sum, which is to be considered as so much gained.

[Here a part of the manuscript is missing.]

| | | |
|---|---|---|
| Brought over . . . . . | | £7,075,000 |
| To be deducted: | | |
| Drawn out of circulation, by the sale of goods imported . . . | £4,000,000 | |
| By governmental taxes, supposed to be . . . . . | 1,000,000 | —5,000,000 |
| Remaining in circulation the fourth year . . . . . | | £2,075,000 |

This will be less than the preceding, which is occasioned by the million supposed to be drawn in by taxes.

The national debt, on this plan, will stand thus, at the end of three years:

| | |
|---|---|
| Foreign loan . . . . . | £2,000,000 |
| Domestic loan, at two millions per annum . | 6,000,000 |
| Interest at four per cent. . . . . | 320,000 |
| | 8,320,000 |
| Half the value of the bank . . . . . | 7,900,000 |
| Balance against the United States . . . . | £420,000 |

We may, therefore, by means of this establishment, carry on the war three years, and only incur a debt of four hundred and twenty thousand pounds over and above the guaranty of the subscription money; which, however, is not to be paid till the end of ten years.

I have said, in one place, that abstract calculations, in questions of finance, are not to be relied on; and as the complex operations of trade are involved in the present plan, I am, myself, diffident of those flattering results which it presents at every step. I am aware how apt the imagination is to be heated in projects of this nature, and to overlook the fallacies which often lurk in first principles. But when I consider, on the other hand, that the scheme stands on the firm footing of public and private faith; that it links the interest of the State in an intimate connection with those of the rich individuals belonging to it; that it turns the wealth and influence of both into a commercial channel, for mutual benefit, which must afford advantages not to be estimated; that there is a defect of circulating medium, which this plan supplies, by a sort of creative power, converting what is so produced into a real and efficacious instrument of trade;—I say, when I consider these things, and many more that might be added, I cannot forbear feeling a degree of confidence in the plan, and, at least, hoping that it is capable of being improved into something that will give relief to our finances.

I do not believe that the advantages will be so great in fact, as they seem to be in speculation.

They will be limited by the means of commerce which the States produce; and these may not be so extensive in the beginning as the plan supposes. Besides this, the profits of the commerce will not be so large, in proportion, after the first or second year, as during those years; neither will it be possible to increase the paper credit in the same degree. But the Bank of England is a striking example, how far this may be carried, when supported by public authority and private influence. On the other hand, a variety of secondary expedients may be invented, to enlarge the advantages of the bank. The whole system of annuities, as practised in England, may be ingrafted upon it, with such differences as are proper to accommodate it to our circumstances. The European loan may also be converted into a European bank, the interest of which, being interwoven with the American bank, may engage rich individuals there in promoting and extending the plan.

Very beneficial contracts may be made between government and the company, for supplying the army, by which money may be saved to the public, the army better furnished, and the profits of the bank extended.

I have confined the bank to the space of ten years, because this will be long enough to judge of its advantages and disadvantages; and the latter may be rectified by giving it a new form. I do not suppose it will ever be discontinued; because it seems to be founded on principles that must always operate well, and make it the interest, both of government and

the company, to uphold it. But I suppose the plan capable of improvement, which experience will suggest.

I give one half of the whole property of the bank to the United States; because it is not only just but desirable to both parties. The United States contribute a great part of the stock; their authority is essential to the existence of the bank; their credit is pledged for its support. The plan would ultimately fail, if the terms were too favorable to the company, and too hard upon government. It might be encumbered with a debt which it could never pay, and be obliged to take refuge in bankruptcy. The share which the State has in the profits will induce it to grant more ample privileges, without which the trade of the company might often be under restrictions injurious to its success.

It is not, perhaps, absolutely necessary that the sum subscribed should be so considerable as I have stated it, though the larger the better. It is only necessary it should be considerable enough to engage a sufficient number of the principal moneyed men in the scheme. But Congress must take care to proportion the advantages they give and receive.

It may be objected that this plan will be prejudicial to trade, by making the government a party with a trading company; which may be a temptation to arrogate exclusive privileges, and thereby fetter that spirit of enterprise and competition on which the prosperity of commerce depends. But Congress may satisfy the jealousies on this head, by a solemn resolution not to grant exclusive privileges,

which alone can make the objection valid. Large trading companies must be beneficial to the commerce of a nation, when they are not invested with these, because they furnish a capital with which the most extensive enterprises may be undertaken. There is no doubt the establishment proposed would be very serviceable at this juncture, merely in a commercial view; for private adventurers are not a match for the numerous obstacles resulting from the present posture of affairs.

The present plan is the product of some reading on the subjects of commerce and finance, and of occasional reflections on our particular situation; but a want of leisure has prevented its being examined in so many lights, and digested so materially, as its importance requires. If the outlines are thought worthy of attention, and any difficulties occur which demand explanation; or if the plan be approved, and the further thoughts of the writer are desired, a letter directed to James Montague, Esquire, lodged in the post-office at Morristown, will be a safe channel of any communications you may think proper to make; and an immediate answer will be given. Though the writer has reasons which make him unwilling to be known, if a personal conference with him should be thought material, he will endeavor to comply.

You will consider this as a hasty production, and excuse the incorrectnesses with which it abounds.

I am, Sir, very respectfully,

Your most obedient and humble servant.

HAMILTON TO ROBERT MORRIS

April 30, 1781.

SIR:

I was among the first who were convinced that an administration by single men was essential to the proper management of the affairs of this country. I am persuaded now it is the only resource we have to extricate ourselves from the distresses which threaten the subversion of our cause. It is palpable that the people have lost all confidence in our public councils; and it is a fact, of which I dare say you are as well apprised as myself, that our friends in Europe are in the same disposition. I have been in a situation that has enabled me to obtain a better idea of this than most others; and I venture to assert that the Court of France will never give half the succors to this country, while Congress holds the reins of administration in their own hands, which they would grant, if these were entrusted to individuals of established reputation, and conspicuous for probity, abilities, and fortune.

With respect to ourselves, there is so universal and rooted a diffidence of the government, that, if we could be assured the future measures of Congress would be dictated by the most perfect wisdom and public spirit, there would be still a necessity for a change in the forms of our administration, to give a new spring and current to the passions and hopes of the people.

To me it appears evident that an executive ministry, composed of men with the qualifications I have described, would speedily restore the credit of

government abroad and at home—would induce our allies to greater exertions in our behalf—would inspire confidence in moneyed men in Europe, as well as in America, to lend us those sums of which it may be demonstrated we stand in need, from the disproportion of our national wealth to the expenses of the war.

I hope, sir, you will not consider it as a compliment, when I assure you that I heard, with the greatest satisfaction, of your nomination to the department of finance. In a letter of mine last summer to Mr. Duane, urging, among other things, the plan of an executive ministry, I mentioned you as the person who ought to fill that department. I know of no other in America, who unites so many advantages; and of course every impediment to your acceptance is to me a subject of chagrin. I flatter myself Congress will not preclude the public from your services by an obstinate refusal of reasonable conditions; and, as one deeply interested in the event, I am happy in believing you will not easily be discouraged from undertaking an office, by which you may render America, and the world, no less a service than the establishment of American independence! 'T is by introducing order into our finances—by restoring public credit—not by gaining battles, that we are finally to gain our object. 'T is by putting ourselves in a condition to continue the war—not by temporary, violent, and unnatural efforts to bring it to a decisive issue, that we shall, in reality, bring it to a speedy and successful one. In the frankness of truth I believe, sir, you

are the man best capable of performing this great work.

In expectation that all difficulties will be removed, and that you will ultimately act on terms you approve, I take the liberty to submit to you some ideas relative to the objects of your department. I pretend not to be an able financier; it is a part of administration which has been least in my way, and, of course, has least occupied my inquiries and reflections. Neither have I had leisure or materials to make accurate calculations. I have been obliged to depend on memory for important facts, for want of the authorities from which they are drawn. With all these disadvantages, my plan must necessarily be crude and defective; but if it may be a basis for something more perfect, or if it contains any hints that may be of use to you, the trouble I have taken myself, or may give you, will not be misapplied. At any rate, the confidence I have in your judgment assures me that you will receive with pleasure communications of this sort: if they contain anything useful, they will promote your views and the public benefit; if not, the only evil is the trouble of reading them; and the best informed will frequently derive lights, even from reveries of projectors and quacks. There is scarcely any plan so bad as not to have something good in it. I trust mine to your candor without further apology; you will at least do justice to my intention.

The first step towards determining what ought to be done in the finances of this country, is to estimate, in the best manner we can, its capacity for revenue;

and the proportion between what it is able to afford, and what it stands in need of, for the expenses of its civil and military establishments. There occur to me two ways of doing this: 1st. By examining what proportion the revenues of other countries have borne to their stock of wealth, and applying the rule to ourselves, with proper allowance for the difference of circumstances. 2d. By comparing the result of this rule with the product of taxes in those States which have been the most in earnest in taxation. The reason for having recourse to the first method is, that our own experience of our faculties in this respect has not been sufficiently clear, or uniform, to admit of a certain conclusion: so that it will be more satisfactory to judge of them by a general principle, drawn by the example of other nations, compared with what we have effected ourselves, than to rely entirely upon the latter.

The nations with whose wealth and revenues we are best acquainted, are France, Great Britain, and the United Provinces. The real wealth of a nation, consisting in its labor and commodities, is to be estimated by the sign of that wealth—its circulating cash. There may be times when, from particular accidents, the quantity of this may exceed or fall short of a just representative; but it will turn again to a proper level, and in the general course of things, maintain itself in that state.

The circulation of France is almost wholly carried on in the precious metals; and its current cash is estimated at from fifteen to sixteen hundred millions of livres. The net revenue of the kingdom,

the sum which actually passes into the public coffers, is somewhere between three hundred and sixty and four hundred millions, about one fourth of the whole of its currency. An estimate of the wealth of this nation is liable to less fallacy than of that of the other two, as it makes little use of paper credit, which may be artificially increased, and even supported, a long time beyond its natural bounds.

It is supposed that the gross sum extracted from the people by the collectors of the revenue may be one third more than that which goes into the treasury; but as their exactions are excessive, and fall too heavy on particular orders, who are by that means reduced to indigence and misery, it is to be inferred, that, with moderate and reasonable expenses of collection, the present revenue is as great as the kingdom can well afford, from its present quantity of wealth.

The circulating cash of Great Britain, in paper and specie, may be stated at about forty millions of pounds sterling. Mr. Hume supposes it to have been, at the time he wrote his *Essay on the Balance of Trade*, about thirty millions. Other writers have carried it to fifty, and it is probably in a medium that we shall find the truth. I do not include in this, the whole amount of bank-notes, exchequer bills, India bonds, etc., etc.; but only such part as is really employed in common circulation, and performs the offices of current cash. In '75, by Dr. Price's statement, the net revenue of Great Britain was ten millions—that is, about one fourth of its current cash, as in France.

I have never met with any calculation that might be depended upon, of the current cash of the Seven Provinces. Almost the whole of their coin, as well as large quantities of plate and bullion, are shut up in the Bank of Amsterdam. The real wealth of the bank is believed to be about fifteen millions sterling; though, upon the strength of this fund, it has a credit almost unlimited, that answers all the purposes of cash in trade. As the Dutch, by their prudent maxims, have commonly the rate of exchange throughout Europe in their favor, and a considerable balance of trade, the use of paper credit (which, in part, also depends upon the particular nature of their banks) has not the same tendency with them, as in England, to banish the precious metals. We may therefore suppose these to be here, as in France, the true sign of the wealth of the nation. If to the fifteen millions in bank, we add two millions of specie for the retail circulation and various transactions of business, we shall, I imagine, have nearly the true stock of wealth of the United Provinces. Their revenues amount to something more than four millions, and bear the same proportion to the stock from which they are drawn, as those of France and England. I confess, however, the data, in their case, are not sufficiently ascertained to permit us to rely equally on the result. From these three examples we may venture to deduce this general rule, —that the proportion of revenue which a nation is capable of affording, is about one fourth of its circulating cash, so far as this is a just representative of its labor and commodities.

This is only applicable to commercial countries, because, in those which are not so, the circulating cash is not an adequate sign. A great part of domestic commerce is carried on by barter; and the state must receive a part of its dues in the labor and commodities themselves. The proportion, however, of the revenues of such a state to the aggregate of its labor and commodities, ought to be the same as in the case of trading nations to their circulating cash; with this difference, that the difficulty of collection and transportation, the waste and embezzlement inseparable from this mode of revenue, would make the real advantage and ultimate gain to the state infinitely less than when the public dues are paid in cash.

When I say that one fourth part of its stock of wealth is the revenue which a nation is capable of affording to the government, I must be understood in a qualified, not in an absolute, sense. It would be presumptuous to fix a precise boundary to the ingenuity of financiers, or to the patience of the people; but this we may safely say, that taxation is already carried, in the nations we have been speaking of, to an extent which does not admit of a very considerable increase without a proportionable increase of industry. This suffices for a standard to us; and we may proceed to the application.

From a comparison of the several estimates I have seen, of the quantity of current cash in this country previous to the war (specie and paper), I have settled my opinion of the amount at thirty millions of dollars, of which about eight might have been in

specie: one fourth of this, by analogy, was at that time the proper revenue of these States; that is, seven and a half millions of dollars.

As taxation, however, has, by slow gradations, been carried to an extreme in those countries which I have chosen as examples, that would not be, but in a course of time, practicable in this, where the people have been so little accustomed to taxes, it may be doubted whether it would be possible to raise the same proportion of revenue here. The object of the war, I imagine, would supply the want of habit, and reconcile the minds of the people to paying to the utmost of their abilities, provided the taxes were judiciously imposed, and the revenues wisely administered. Besides this, there is a circumstance in our favor, which puts it in the power of government to raise an equal proportion of revenue without burthening the lower classes of the people in the same degree as in Europe. This circumstance is the much greater equality of fortunes, by which means men, in this country, may be made to contribute to the public exigencies in a much juster proportion to their property; and this is in fact the case. In France the rich have gained so entire an ascendant, that there is a constant sacrifice of the ease and happiness of the people to their avarice and luxury: their burthens are in no proportion to those of the middle order, and still less to those of the poor. In England and Holland the case, though not altogether, is in a great measure the same. There are also men of very large moneyed capitals, which were either formerly exempt from

taxes by being in the public funds; or, having no visible representative for taxation to operate upon, enjoy virtually the same advantages. But if, at the commencement of the war, the ability of these States for revenue may be rated at seven and a half millions of dollars, when the amount of its circulating cash was thirty millions, now that it is reduced more than one half in real value, to what revenue are they to be supposed equal at this time? I should judge about one fifth less, and not more.

The diminution of our circulating cash is principally artificial. It is true, our foreign commerce has declined by the war, but our domestic commerce has increased. I know of no good reason to believe, that the quantity of labor and commodities have been materially diminished. Our exports have lessened, but our internal consumption has augmented. The men employed in the army, and in the departments connected with it, consume and waste three times as much as the same number of men in civil life. A number of husbandmen have been taken from their ploughs into military service; but the progress of our natural population has, in part, supplied their place; and the demands of the war have increased individual industry. The great influx of money at first operated upon the avarice of the people, and, for a long time, served also as a stimulus to industry, which taxation has since kept up on the principle of necessity. Notwithstanding the demands and competitions of two armies for supplies, we see that corn, which is the staple of these Middle States, is cheaper than for

some years before the war; a strong argument of plenty.

We may infer from all this, that we stand in need now of nearly the same quantity of medium for our circulation as before the war. The depreciation of the money below the standard is to be attributed to a want of confidence rather than to a decay of resources. We find the people, in some of the States, distressed to pay their taxes for want of money, with ample means otherwise; which is a proof, that our current cash is not a competent representative of the labor and commodities of the country. Another proof of the same nature is, that particular States which have found no small difficulty in collecting their pecuniary taxes, have been successful in raising contributions to a large amount in kind.

This country never having been a country of manufactures, the productions of the soil were, as they still are, the principal source of revenue. The inhabitants have abridged their wants of foreign articles, from the scarcity of them, and have, in part, supplied their place by home manufactures, which, being chiefly conducted by the women, take nothing from the labor appropriated to agriculture, while it enables the farmer to spare a larger portion of his income to the public.

Whatever diminution our means of revenue may have suffered, must be accounted for on the decay of foreign trade, and on the loss of territory. The imposts on trade in Great Britain amounted to about a fourth of its total revenue. The proportion must be less in America. But suppose it to be the same;

suppose our external commerce to be reduced one half, which I believe is an ample allowance, then one eighth should be deducted from our revenue on this account; which would bring it down to six millions five hundred and sixty-two thousand five hundred dollars. Allow for the loss of Georgia and South Carolina one eighth of this sum; this would reduce the income of the remaining States to five millions seven hundred and forty-two thousand one hundred and eighty-eight and four eighths dollars. But as the allowance in both cases is large, the diminution I have already supposed, of one fifth of the whole, appears to be nearest the truth; which leaves these States with a net revenue of six millions of dollars.

We will now examine how far this rule agrees with experience, and with what has already been effected in these States. Massachusetts may serve as a criterion. This is one of the States where taxation has been carried furthest. Taxes were so heavy last year, that I am informed there were real marks of distress among some classes of the people. The Legislature, in their late address, tell us that they amounted to six hundred thousand pounds lawful; and they appear to have thought the pressure of them too great, by reducing them at a time when they are obliged to have recourse to a large loan to answer the exigencies of the current year.

The taxes they specify, which seem to belong to those of the present year, with the addition of the bounties for raising men, and the beef supply, may be estimated at near five hundred thousand pounds.

This State is in a different situation from any other. Its position has made it impossible for the enemy to intercept its trade; while that of all the others has been greatly injured or totally obstructed. It has become, in consequence, the mart of the States northward of Pennsylvania; and its commerce has enlarged itself much beyond its former limits. A great part of the money expended for the support of the war has been disbursed there. Congress, in their requisitions for money, have rated the quota of Massachusetts at [1] of the whole; but I believe its ability, at this time, is in the proportion of one fifth. I found this estimation on an impartial comparison of the circumstances of the several States.

Admitting the proportion to be just, and taking the taxes of the present year as a standard, the gross amount of our collective revenues would be two millions five hundred thousand pounds lawful; or eight millions three hundred and thirty-three thousand three hundred and thirty-three and one third dollars. The expense of collection, in England, is about one ninth of the gross amount; and considering that our revenue is to be raised in eleven different governments, each having a complete set of collectors of its own, the expense of collection, with us, will in all probability be not much less than it is in England. Supposing it to be the same, and that the taxes were to prove as productive as their normal amount,

[1] This blank is in the original, and as the quota of Massachusetts seems to have varied from a seventh to a ninth it cannot be filled precisely. See Journals of Continental Congress.

our net revenue would then be seven millions four hundred and seven thousand four hundred and eight and one half dollars; which considerably exceeds what it ought to be by my first calculation.

But there are considerations which may induce us to make large deductions from this sum. When the Legislature tells us, that the taxes of last year amounted to six hundred thousand pounds, it also tells us that there was *a part* of them still to be levied; which, among other things, had occasioned them to postpone the next tax to a future session. Whatever is due on the last year may be considered, in effect, as an anticipation on the taxes of the present; for it takes off so much from the ability of the people to pay them. The chances are, that the additional impositions projected for the current year will not be raised in their full extent. Taxes are seldom or never so productive as their estimated value; and in a case like this, must be expected to be more than commonly deficient.

It is to be observed, also, that the last year was a year of peculiar exertion. There was a general expectation of some attempt, in conjunction with our allies, decisive of the war. This made the people strain their efforts beyond their natural abilities; and yet they did not comply with the demands of the Legislature.

The money for the bounties this year, which I have calculated at sixty thousand pounds,[1] may, in like

[1] It is to be feared, too, that this sum is rated too high. Hitherto we have not four hundred men from that State, nor very promising accounts of those which may be expected.

manner, be regarded as an extraordinary and special contribution, which the people may be willing to submit to, over and above what they could probably afford to pay, to get rid of the insupportable inconvenience of temporary enlistments.

Reasonable deductions on these accounts being made, will bring the two calculations to a pretty exact agreement, and make them confirm each other. But were not this the case, I should be inclined, in preference, to trust the first, as being founded on a basis better known and better ascertained by experience. I believe, however, we may safely conclude, from both, that between six and seven millions of dollars is the proper revenue of these States, after the dismemberment of South Carolina and Georgia.

Having formed an estimate of our ability for revenue, the next thing to be ascertained is the annual expense of our civil and military establishments. With tolerable economy, I should suppose two millions and a half of dollars would amply suffice for the first, including the particular administration of each State. For the second, judiciously managed, eight millions of dollars would be adequate, calculating for an army of twenty thousand men, which are as many as we shall stand in need of, or be able [1] to raise. Eleven millions of dollars

[1] The proportion of the European armies, in general, to the national population, is calculated at one to a hundred. By this rule, supposing our population to be two and a half millions, our armies ought to consist of twenty-five thousand men; but the proportion will naturally be less in this country. Our population is more diffused: there is a greater facility of procuring subsistence, fewer poor and consequently fewer of that class of men whose habits, tempers, and circumstances lead them to embrace the military life, than in any other country in

will be then the amount of the annual expenses of these States. I speak on a supposition that a system were embraced, well adapted to rescuing our affairs from the chaos in which they are now involved; and which, while it continues, must baffle all calculation.

The difference between our revenues and expenses, on the preceding scale, will be from four to four and a half millions of dollars; which deficiency must of course be supplied by credit, foreign or domestic, or both.

With regard to credit abroad, I think we have little chance of obtaining a sufficiency, nearly to answer our purpose. France, by all the reforms she can make in her interior economy, by all the means she can procure in loans and lotteries, in

the world. Hence it is, I say, twenty thousand men are as many as we shall be able to raise. Experience justifies this opinion. In the first paroxysms of enthusiasm our armies were larger. I believe, at particular periods, we have had more than thirty thousand men in the field: but our force has every year diminished, and has been for two years past below the standard I have assigned. Immense efforts have been made to procure men, but they have not been able to produce more. This shows that our military system is still susceptible of great reforms in favor of economy; but we dare not make them, because we cannot pay the army. I also said, twenty thousand men would be as many as we should stand in need of. The enemy have now less than this number within the States; and cannot, in the future progress of the war, have more.

An equal force, with the occasional aid of the militia, will confine them within one or two capital points; and this will be their defeat. But we have a further resource in the troops of our allies. We must not dream of decisive enterprises, unless our allies will assist us with twelve or fifteen thousand land troops, and an undisputed maritime superiority. Then, with the aid of the militia, drawn out for a few months, we may undertake and succeed. Our true policy, in the meantime, is, to endeavor to form a solid compact force, proportioned to our necessities.

addition to her revenue, can do little more than satisfy her own wants. The death of the Empress Queen, and the notorious hostility of the Emperor, will add to the number of these. She will, in all probability, be obliged to pay greater attention to her army, which has been neglected, for several years past, to apply all the resources of the kingdom to the improvement of the navy. Though Russia and Prussia, by the last advices, seemed disposed to control the ill-humor of the Emperor, France will hardly think it prudent to leave herself in a defenceless condition, relying on the precarious friendship and momentary interests of other powers. The increase of her army will necessarily increase her expenses, as she cannot, in the present state of things, retrench any thing from the navy; and of course she will have less money to spare to allies. It has been observed, that France has hitherto imposed none of the additional taxes usual in time of war; by doing which, it is imagined she would have it in her power, not only to supply her own wants better, but to contribute largely to ours. To this it has been answered, with great appearance of reason, that the credit of the financier very much depends on his having such a resource in reserve, which, being considered as a means he may command, when necessary, to fulfil his engagements, disposes moneyed men to lend to him with the greater freedom and confidence. The breaking in upon that resource, therefore (it is said), would injure credit, and obstruct loans in a degree that could not be compensated by the direct value of the revenue it would furnish.

Upon the whole, however, from a variety of siftings and inquiries, I should be mistaken if France did not lend this country eight or ten millions of livres annually, during the war; provided its finances were once put upon a reasonable footing: but this is not above a third of our wants.

I find no reason to flatter ourselves that we have much to expect either from the ability or inclination of Spain. Her government is far from being so rich as is vulgarly imagined. The mines of South America, of late years, have been less liberal of their profits; and, for fear of accidents, but a small part of their product, since the war, has been imported into Europe. The extreme indolence of the Spaniards, and their neglect of agriculture, manufactures, and trade, make them tributary to their more industrious neighbors, who drain them of their precious metals as fast as they arrive.

But if they were heartily disposed to do it, they might still afford us some assistance. Their conduct hitherto has manifested no such disposition; it has been as cold and reserved as it could well be. The bills drawn upon them have not been rejected, but they have not been paid. Their permitting the residence of a British emissary among them, and the countenance they give him, unprecedented in a state of war, afford just room for a distrust of their intentions, though it may be nothing more than a stroke of policy, to play him off against our negotiators, and make us bid higher for their friendship. Their method of prosecuting the war is passive to a degree that can scarcely be resolved even into Span-

ish supineness, but seems to have a more corrupt original. A bigoted prince, governed by a greedy confessor, is a character on which little dependence can be placed.

'T is not on Spain, then, that we are to build our hopes of any considerable succors in money.

The Dutch Government has of long standing mortgaged all its revenues. Taxation has been carried to a length that admits of little extension. 'T is from its credit with its own citizens that it must derive the means of making war. It has every thing to do. Its fleet is to be in a manner created anew and its land forces to be recruited, having been for some time past suffered to decline very much. It will, therefore, stand in need of all its credit for its own uses. Of course, we have nothing to expect from the government of that country.

The individuals will not have confidence enough in our public councils to embark any considerable part of their fortunes with us on the ordinary principles of a loan. Stronger inducements, the prospect of commercial advantages, securities differing from the mere faith of the United States, must be held out to tempt them to engage far with us. The plan I am going to propose endeavors to conciliate these objects.

As to internal loans, on which, after all, we must chiefly depend, there are two things that operate against them to any large amount: the want of a sufficient number of men with sufficient moneyed capitals to lend the sums required, and the want of

confidence in those who are able to lend to make them willing to part with their money. It may be added that they can employ it to greater advantage in traffic than by merely lending it on interest.

To surmount these obstacles, and give individuals ability and inclination to lend in any proportion to the wants of government, a plan must be devised which, by incorporating their means together and uniting them with those of the public, will, on the foundation of that incorporation and union, erect a mass of credit that will supply the defect of moneyed capital, and answer all the purposes of cash; a plan which will offer adventurers immediate advantages, analogous to those they receive by employing their money in trade, and eventually greater advantages; a plan which will give them the greatest security the nature of the case will admit for what they lend; and which will not only advance their own interest and secure the independence of their country, but, in its progress, have the most beneficial influence upon its future commerce, and be a source of national strength and wealth.

I mean the institution of a NATIONAL BANK. This I regard, in some shape or other, as an expedient essential to our safety and success; unless, by a happy turn of European affairs, the war should speedily terminate in a manner upon which it would be unwise to reckon. There is no other that can give to government that extensive and systematic credit which the defect of our revenues makes indispensably necessary to its operations.

The longer it is delayed the more difficult it be-

comes. Our affairs grow every day more relaxed and more involved; public credit hastens to a more irretrievable catastrophe; the means for executing the plan are exhausted in partial and temporary efforts. The loan now making in Massachusetts would have gone a great way in establishing the funds on which the bank must stand.

I am aware of all the objections that have been made to public banks; and that they are not without enlightened and respectable opponents. But all that has been said against them only tends to prove that, like all other good things, they are subject to abuse, and, when abused, become pernicious. The precious metals, by similar arguments, may be proven to be injurious. It is certain that the mines of South America have had great influence in banishing industry from Spain, and sinking it in real wealth and importance. Great power, commerce, and riches, or, in other words, great national prosperity, may, in like manner, be denominated evils; for they lead to insolence, an inordinate ambition, a vicious luxury, licentiousness of morals, and all those vices which corrupt government, enslave the people, and precipitate the ruin of a nation. But no wise statesman will reject the good from an apprehension of the ill. The truth is, in human affairs there is no good, pure and unmixed; every advantage has two sides; and wisdom consists in availing themselves of the good, and guarding as much as possible against the bad.

The tendency of a national bank is to increase public and private credit. The former gives power

to the state, for the protection of its rights and interests: and the latter facilitates and extends the operations of commerce among individuals. Industry is increased, commodities are multiplied, agriculture and manufactures flourish: and herein consists the true wealth and prosperity of a state.

Most commercial nations have found it necessary to institute banks; and they have proved to be the happiest engines that ever were invented for advancing trade. Venice, Genoa, Hamburg, Holland, and England are examples of their utility. They owe their riches, commerce, and the figure they have made at different periods, in a great degree to this source. Great Britain is indebted for the immense efforts she has been able to make, in so many illustrious and successful wars, essentially to that vast fabric of credit raised on this foundation. 'T is by this alone she now menaces our independence.

She has, indeed, abused the advantage, and now stands on a precipice. Her example should both persuade and warn us. 'T is in republics where banks are most easily established and supported, and where they are least liable to abuse. Our situation will not expose us to frequent wars; and the public will have no temptation to overstrain its credit.

In my opinion, we ought not to hesitate, because we have no other resource. The long and expensive wars of King William had drained England of its specie; its commerce began to droop for want of a proper medium: its taxes were unproductive, and its revenues declined. The administration wisely

had recourse to the institution of a bank; and it relieved the national difficulties. We are in the same, and still greater, want of a sufficient medium. We have little specie; the paper we have is of small value, and rapidly descending to less: we are immersed in a war for our existence as a nation, for our liberty and happiness as a people: we have no revenues and no credit. A bank, if practicable, is the only thing that can give us either the one or the other.

Besides these great and cardinal motives to such an institution, and the advantages we should enjoy from it, in common with other nations, our situation, relatively to Europe and to the West Indies, would give us some peculiar advantages.

Nothing is more common than for men to pass from the abuse of a good thing, to the disuse of it. Some persons, disgusted by the depreciation of the money, are chimerical enough to imagine it would be beneficial to abolish all paper credit, annihilate the whole of what is now in circulation, and depend altogether upon our specie, both for commerce and finance. This scheme is altogether visionary, and in the attempt would be fatal. We have not a competent stock of specie in this country, either to answer the purposes of circulation in trade, or to serve as a basis for revenue. The whole amount of what we have, I am persuaded, does not exceed six millions of dollars, one fifth of the circulating medium before the war. To suppose this would be sufficient for the operations of commerce, would be to suppose that our domestic and foreign

commerce were both reduced four fifths: a supposition that carries absurdity on the face of it. It follows that if our paper money were destroyed, a great part of the transactions of traffic must be carried on by barter; a mode inconvenient, partial, confined, destructive both of commerce and industry. With the addition of the paper we now have, this evil exists in too great a degree.

With respect to revenue, could the whole of our specie be drawn into the public treasury annually, we have seen that it would be little more than one half of our annual expense. But this would be impracticable; it has never been effected in any country. Where the numerary of a country is a sufficient representative, there is only a certain proportion of it that can be drawn out of daily circulation; because, without the necessary quantity of cash, a stagnation of business would ensue. How small, then, would be the proportion of the six millions (in itself so unequal a representative) which the public would be able to extract in revenue. It must either have little or no revenue, or it must receive its dues in kind; on the inefficacy and inconveniences of which mode, I have already remarked. The necessity for it, in part, unhappily now has place, for the cause assigned, a deficiency of current cash: but were we to establish it as our principal dependence, it would be impossible to contrive a mode less productive to the public, more contrary to the habits and inclinations of the people, or more baneful to industry.

But waiving the objections on this head, there

would still remain a balance of four millions of dollars more than these States can furnish in revenue, which must be provided for the yearly expense of the war. How is this to be procured without a paper credit, to supply the deficiency of specie, and enable the moneyed men to lend? This question, I apprehend, will be of no easy solution.

In the present system of things, the health of a State, particularly a commercial one, depends on a due quantity and regular circulation of cash, as much as the health of an animal body depends upon the due quantity and regular circulation of the blood. There are indisputable indications that we have not a sufficient medium; and what we have is in continual fluctuation. The only cure to our public disorders, is to fix the value of the currency we now have, and increase it to a proper standard, in a species that will have the requisite stability.

The error of those who would explode paper money altogether, originates in not making proper distinctions. Our paper was, in its nature, liable to depreciation, because it had no funds for its support, and was not upheld by private credit. The emissions under the resolution of March, '80, have partly the former advantage, but are destitute of the latter, which is equally essential. No paper credit can be substantial, or durable, which has no funds, and which does not unite, immediately, the interest and influence of the moneyed men, in its establishment and preservation. A credit begun on this basis, will, in process of time, greatly exceed its funds: but this requires time and a well-settled

opinion in its favor. 'T is in a national bank, alone, that we can find the ingredients to constitute a wholesome, solid, and beneficial credit.

I am aware that, in the present temper of men's minds, it will be no easy task to inspire a relish for a project of this kind: but much will depend on the address and personal credit of the proposer. In your hands I should not despair: and I should have the greater hopes for what I am informed appeared to be the disposition, at the promulgation of the plan for a loan in Massachusetts. The men of property in America are enlightened about their own interest, and would easily be brought to see the advantages of a good plan. They ought not to be discouraged at what has happened heretofore, when they behold the administration of our finances put into a better channel. The violations of public engagements, hitherto, have proceeded more from a necessity produced by ignorance and mismanagement, than from levity or a disregard to the obligations of good faith.

Should the success, in the first instance, not be as complete as the extent of the plan requires, this should not hinder its being undertaken. It is of the nature of a bank, wisely instituted, and wisely administered, to extend itself, and, from small beginnings, grow to a magnitude that could not have been foreseen.

The plan I propose requires a stock of three millions of pounds, lawful money; but if one half the sum could be obtained, I should entertain no doubt of its full success. It now remains to submit my

plan, which I rather offer as an outline, than as a finished plan. It contains, however, the general principles. To each article I shall affix an explanatory remark.

ART. I. A bank to be erected with a stock of three millions of pounds, lawful money, at the rate of six shillings to a dollar, divided into thirty thousand shares. This stock to be exempted from all public taxes and impositions whatsoever.

REMARK 1. By the second Article, a part of the stock is to be in landed security; by this, the whole is to be exempted from taxes. Here will be a considerable saving to the proprietor, which is to be estimated among the clear profits of the bank. This will indeed be a small reduction of the public revenue; but the loss will be of little consequence, compared with the advantages to be derived from the bank.

ART. II. A subscription to be opened for the amount of the stock. A subscriber of from one share to five, to advance the whole in specie. A subscriber of six shares to fifteen, to advance one half in specie, the other half in good landed security. A subscriber of sixteen shares, and upwards, to advance two sixths in specie, one sixth in bills of securities on good European funds, and three sixths in good landed security. In either case of specie, plate or bullion, at a given value, proportioned to its quality, may be substituted; and in either case of landed security, specie, good bills, or securities on European funds, to be admissible in their stead.[1]

[1] The possibility of making up so large a proportion of specie will depend on foreign assistance. It could hardly be hoped to effect it

REMARK 2. By admitting landed security as a part of the bank stock, while we establish solid funds for the money emitted, we at the same time supply the defect of specie, and we give a strong inducement to moneyed men to advance their money; because, not only the money actually deposited is to be employed for their benefit, but, on the credit of their landed security, by the seventh Article, may be raised an equal amount in cash, to be also employed for their benefit; by which artifice they have the use of their land (exempted, too, from taxes), and the use of the value of it in a representative cash. In this consists a capital advantage of the bank to the proprietors. A, for instance, advances six hundred pounds in specie, and as much more in landed security. By the establishment he may draw bank-notes for the whole of his stock, that is, for twelve hundred pounds, when he only advances half the sum in money. These bank-notes operating as cash, his land (continuing as we observed above, in his own use, with the privilege besides of an exemption from taxes) is converted into cash; which he may employ in loans, in profitable contracts, in beneficial purchases, in discounting bills of exchange, and in the other methods permitted in the subsequent Articles. Besides all this, when the bank-notes have once acquired a fixed credit, he is not obliged to keep his six hundred pounds, deposited in specie, idle; he may lend or otherwise improve, a part of that also. These advantages will not exist in their full extent at first, but they will soon succeed each other.

within ourselves, if, as I suppose, there are not more than six millions of dollars in these States. It is true, plate is admitted; but it is uncertain how far this may prove a resource. It were to be wished the proportion of specie might be as large as possible; but, perhaps, for fear of a failure, it may be advisable to alter the above proportions, so as to have, upon the whole, about one third in specie, and two thirds in European funds and landed security.

ART. III. The bank to be erected into a legal corporation; to have all the powers and immunities requisite to its security, to the recovery of its debts, and to the disposal of its property.

REMARK 3. This Article needs no illustration.

ART. IV. The stock of the bank not to be liable to any attachment or seizure whatsoever; but, on refusal of payment, the holders of bank-notes, or bonds, may enter suit against any member, or members, of the corporation; and, as far as their respective shares in the bank extend, recover the debt, with cost and damages, out of their private property.

REMARK 4. The first part of this regulation is necessary to engage foreigners to trust their property in the bank; the latter part to give an idea of security to the holders of bank-notes.

ART. V. The United States, or any particular States, or foreigners, may become subscribers to the bank, and participate in its profits, for any sums not exceeding the whole half the stock.

REMARK 5. This will link the interests of the public more intimately with the bank, and be an easy method of acquiring revenue. It will also facilitate the making up its stock by the loans which Congress may obtain abroad; without which it would be more difficult to raise so large a sum. It is essential the stock should be large, because, in proportion to it, will be the credit of the bank, and of course its ability to lend and enlarge its paper emissions. The admission of foreigners will also assist the completing the stock; and it is probable many may

be induced to enter into the plan, especially after it has made some progress among ourselves, and obtained a degree of consistency.

The sum is limited to one half the stock, because it is of primary importance that the moneyed men among ourselves should be deeply interested in the plan.

ART. VI. The United States, collectively and particularly, to become responsible for all the transactions of the bank, conjointly with the private proprietors.

REMARK 6. This mode of pledging the public faith makes it as difficult to be infringed as could possibly be devised. In our situation it is expedient to offer every appearance of security. Foreigners are more firmly persuaded of the establishment of our independence than of the continuance of our union; and will, therefore, have more confidence in the States bound separately than collectively. Individuals among ourselves will be influenced by similar considerations.

ART. VII. The bank to issue notes payable at sight in pounds, shillings, and pence, lawful; all of twenty shillings, and under, to bear no interest; all above, to bear an interest not exceeding four per cent. The notes to be of so many denominations as may be judged convenient for circulation, and of two kinds; one payable only in America, the other payable either in America or in any part of Europe where the bank may have funds. The aggregate of these notes never to exceed the bank stock.

REMARK 7. The reason of having them payable at sight is to inspire the greater confidence and give them a

readier currency; nor do I apprehend there would be any danger from it. In the beginning some may be carried to the bank for payment, but finding they are punctually discharged, the applications will cease. The notes are payable in pounds, shillings, and pence, rather than in dollars, to produce an illusion in the minds of the people favorable to the new paper; or rather to prevent their transferring to that their prejudices against the old. Paper credit depends much on opinion, and opinion is often guided by outside appearances. A circumstance trivial as this may seem, might have no small influence on the popular imagination. And if twenty shillings, and under, are without interest, because such small sums will be diffused in the lesser transactions of daily circulation, there will be less probability of their being carried to the bank for payment.

The interest on the larger notes is calculated to give them a preference to specie, and prevent a run upon the bank. The notes, however, must be introduced by degrees, so as not to inundate the public at once. Those bearing no interest ought not to be multiplied too much at first; but as the interest is an abridgment of the profits of the bank, after the notes have gained an unequivocal credit, it will be advantageous to issue a large proportion of the smaller ones. At first, the interest had best be at four per cent., to operate the more effectually as a motive; afterward, on the new notes, it may be gradually diminished; but it will always be expedient to let them bear an interest not less than two per cent.

The making some of the notes payable in Europe as well as in America, is necessary to enable the bank to avail itself of its funds there; it will also serve to raise the demand for bank-notes, by rendering them useful in foreign commerce, the promoting which is a further inducement.

The limiting the aggregate of the notes to the amount of the stock, is necessary to obviate a suspicion of their being multiplied beyond the means of redemption.

ART. VIII. The bank to lend money to the public, or to individuals, at an interest not exceeding eight per cent.

REMARK 8. In the beginning it will be for the advantage of the bank to require high interest, because the money is in great demand, and the bank itself will want the principal part of its cash for the loans stipulated in Article XIII., and for performing the contracts authorized by Article XII.; so that the profits will not, for some time, turn materially on the principle of loans, except that to the public. But when the contracts cease, the bank will find its advantage in lending, at a moderate interest, to secure a preference from borrowers, which will, at the same time, promote commerce; and by a kind of mutual reaction, the bank will assist commerce, and commerce will assist the bank.

ART. IX. The bank to have liberty of borrowing, on the best terms it can, to the amount of one half of its stock.

REMARK 9. This is a precaution against a sudden run. It may borrow in proportion to what it pays. It has another advantage: at particular conjunctures the bank may borrow at a low interest, and lend, at others, at a higher.

ART. X. The bank to have liberty of purchasing estates by principal, or by annuities; the power of coining to the amount of half its stock, the quantity

of alloy, etc., being determined by Congress; also the power of discounting bills of exchange.

REMARK 10. This privilege of purchasing estates will be a very valuable one. By watching favorable opportunities, with so large a capital, vast property may be acquired in this way. There will be a fine opening at the conclusion of the war. Many persons disaffected to our independence, who have rendered themselves odious without becoming obnoxious to the laws, will be disposed to sell their estates here, either for their whole value, or for annuities in Europe. The power of coining [1] is necessary, as plate, or bullion, is admitted instead of specie; and it may be, on particular occasions, expedient to coin them; this will be a small resource to the bank. The power of discounting bills of exchange will be a considerable one. Its advantages will consist in purchasing, or taking up for the honor of the drawer, when the security is good, bills of exchange at so much per cent. discount. A large profit might be now made in this way on the bills drawn on France; and hereafter, in times of peace, when commerce comes to flourish, this practice will promote the transactions of the several States with each other, and with Europe, and will be very profitable to the bank.

ART. XI. The bank to receive from individuals deposits of any sums of money, to be repaid when called for, or passed, by order, to the credit of others; or deposits of plate, paying a certain annual rate for safe-keeping. Whatever is deposited in the bank, to be exempt from taxes.

[1] It may, perhaps, not be impossible to make some profitable speculations on the bullion which the Spaniards are afraid to transport from South America to Europe.

REMARK 11. This is in imitation of the Bank of Amsterdam. If individuals once get into the practice of depositing their money in bank, it will give credit to the bank, and assist trade. In time, a premium may be required at repayment as in Holland. A small profit may be immediately gained on plate, as the States begin to tax this article; and many persons will dispense at this time with the use of their plate, if they can deposit it in a place of safety, and pay less for keeping it than the tax. Whatever serves to increase the apparent wealth of the bank, will enhance its credit! It may even be useful to let the owners of the plate have credit in bank for the value of the plate, estimated on a scale that would make it for the advantage of the bank to purchase.

ART. XII. The bank to have a right to contract with the French Government for the supply of its fleets and armies in *America*, and to contract with Congress for the supply of their armies.

REMARK 12. It will be of great importance to the success of the subscriptions, that a previous assurance of these contracts should take place: the profits of them would be no trifling inducement to adventurers; it would have the air of employing the money subscribed in trade. As soon, therefore, as the plan should be resolved upon, negotiations should be begun for the purpose. It is so clearly the interest of the French Government to enter into these contracts, that they must be blind not to do it, especially when it is proposed under the aspect of a method of re-establishing our finances. The present loss on their bills is enormous. The bank may engage to receive them at a moderate discount, and to supply on better terms than they now make. Their business is at this time trusted to a variety of hands, some of which are

neither very skilful nor very honest: competitions, frauds, and additional expense, are the consequences.

Congress could not hesitate on their part, as the amount of the contracts would be a part of the loan required in Article XIII.

ART. XIII. The bank to lend Congress one million two hundred thousand pounds, lawful, at eight per cent. interest; for the payment of which, with its interest, a certain unalienable fund of one hundred and ten thousand four hundred pounds per annum, to be established for twenty years. The States, generally and severally, to pledge themselves for this sum, and for the due appropriation of the fund. Congress to have a right, at any intermediate period, to pay off the debt, with the interest to the time of payment. The same rule to govern in all future loans.

REMARK 13. This loan will enable Congress to get through the expenses of the year. There may be a small deficiency, but this will be easily supplied. The credit of the bank once established, it may increase its stock, and lend an equal sum every year during the war. This loan may be advanced, partly in a contract for provisions, clothing, etc., and partly in cash, at periodical payments, to avoid a too quick multiplication of bank-notes.

ART. XIV. The bank to become responsible for the redemption of all the paper now emitted; the old, at forty for one in thirty years, the new at par, with gold and silver, according to the terms promised by Congress in their resolution of March, '80. One third of the first to be redeemed at the end of

every ten years; and the whole of the last to be redeemed at the expiration of the six years specified by Congress, with the interest of five per cent. The United States, in compensation for this responsibility, to establish certain funds for an annuity, payable to the bank, equal to the discharge of the whole amount of the paper currency in thirty years, with an interest of two per cent. per annum.

REMARK 14. It is of the greatest importance that the old currency should be fixed at a certain value, or there will be danger of its infecting the future paper; besides, we want to raise it to a point that will make it approach nearer to an adequate medium. I have chosen the resolution of March, '80, as a standard. We ought not, on any account, to raise the value of the old paper higher than forty to one, for this will give it about the degree of value that is most salutary; at the same time that it will avoid a second breach of faith, which would cause a violent death to all future credit. A stable currency is an idea fundamental to all practicable schemes of finance. It is the duty and interest of the public to give stability to that which now exists; and it will be the interest of the bank, which alone can effect it, to cooperate. I have not mentioned the amount of the annuity to be paid by Congress, because I have not materials to judge what quantity of paper money now exists; since it will be necessary to take all the State emissions into the calculation. I suppose (including State emissions) there may be about four hundred millions of dollars of the old standard, and about four millions of the new.[1] This will give us, in specie-value, about fourteen mil-

[1] It is impossible too soon to make some arrangement that will enable Congress to put a stop to the further emission.

lions of dollars. This is what the bank is to become answerable for, and what the public is to pay, by an annuity of thirty years, with two per cent. interest. This annuity would amount to six hundred and eleven thousand three hundred and thirty-three and one third dollars, for which funds are to be provided.

By a rough calculation, I find that the bank would gain, in the thirty years, about three millions of dollars, on the simple footing of interest; and that it will, at different periods, have more public money in its posesssion than it will be in advance at others; so that, upon the whole, the sum it will gain in interest will be for the loan of its credit to the public, not of any specific sum of cash. Besides, the interest of the bank may gain a very considerable sum by the purchases it may make of the old paper at its current value, before the influence of this plan has time to bring it back to the point at which it is intended to be fixed.[1] It is the obvious interest of the United States to concur in this plan, because, by paying three millions of dollars in interest to the bank, more than it would have to pay to the money-holders, agreeably to its present engagements, it would avoid a new breach of faith, fix its circulating medium increased in value more than one half, render the taxes more productive, and introduce order into its finances, without which our independence is lost. It will also have only about two thirds of the funds to establish for this plan that are required by the act of March, '80, to discharge the new bills; it will, of course, reserve a large balance toward the current expenses, which is no insignificant consideration.

Perhaps it may be imagined that the same funds

[1] There is another immense consideration. The proprietors of the bank will be the holders of a great part of this paper. They have it in their power to double the value of it by this plan, which is, in other words, to gain a hundred per cent.

established for the redemption of the money in the same time, without passing through the bank, would have an equal effect upon its credit, and then we should save the interest of two per cent. Experience proves the contrary. We find the new notes depreciating in the States which have provided good funds. The truth is, there is not confidence enough in any funds merely public. The responsibility of the bank would beget a much stronger persuasion of the paper being redeemed, and have incomparably more efficacy in raising and confirming its credit. Besides, the bank might immediately reduce the quantity by purchase, which the public could not do.

It will be observed that of the six millions of dollars which constitute our annual revenue, I require nine hundred and seventy-nine thousand three hundred and thirty-three and one third dollars, in funds, to reimburse the loan for the first year, and pay off the annuity for the redemption of the old paper. It may be asked, where these funds are to be procured in the present impotence of our Federal Government. I answer, there are ample means for them, and they must be had. Congress must deal plainly with their constituents. They must tell them that power without revenue is a bubble; that unless they give them substantial resources of the latter, they will not have enough of the former either to prosecute the war or to maintain the Union in peace; that, in short, they must, in justice to the public and to their own honor, renounce the vain attempt of carrying on the war without either, a perseverance in which, can only deceive the people, and betray their safety. They must demand an instant, positive, and perpetual investiture of an impost on trade; a land tax and a poll tax, to be collected by their own agents. This act to become a part of the Confederation.

It has ever been my opinion that Congress ought to

have complete sovereignty in all but the mere municipal law of each State; and I wish to see a convention of all the States, with full power to alter and amend, finally and irrevocably, the present futile and senseless Confederation.

The taxes specified may be made to amount to three millions of dollars; the other three millions to be raised by requisition, as heretofore.

ART. XV. The bank-notes to be received in payment of all public customs and taxes, at an equivalent with gold and silver.

REMARK 15. It is essential that all taxes should be raised, throughout the United States, in specie, or bank-notes at par, or the old paper at its current value at the time of payment. This will serve to increase the circulation and credit of the bank-notes; but no person should be obliged to receive them in private dealings. Their credit must depend on opinion; and this opinion would be injured by legislative interposition.

ART. XVI. The bank to dissolve itself whenever it thinks proper, making effectual provision for the payment of its debts; and a proprietor of bank stock to have the privilege of selling out whenever he pleases.

REMARK 16. This permission to dissolve or sell at pleasure will encourage men to adventure; and, when once engaged, the profits will make them willing to continue.

ART. XVII. The bank to be established for thirty years by way of experiment.

REMARK 17. This is chiefly to prevent some speculative men being alarmed, who, upon the whole, may think a paper credit detrimental and dangerous, though they would be willing, from necessity, to encourage it for a limited time. Experience, too, may show the defects of this plan, and give rise to alterations for the better.

ART. XVIII. No other bank, public or private, to be permitted during that period.

REMARK 18. Other banks might excite a competition prejudicial to the interests of this, and multiply and diversify paper credit too much.

ART. XIX. Three banks to be erected in Massachusetts, Pennsylvania, and Virginia, to facilitate the circulation and payment of the bank-notes.

REMARK 19. These banks ought to be in the interior of the country, remote from danger, with every precaution for their security in every way. Their distance from the capital trading points will be an advantage, as it will make applications for the payment of bank-notes less convenient.

ART. XX. The affairs of the bank to be managed by twelve general directors, men of reputation and fortune; eight of them to be chosen by the private proprietors, and four by Congress. The Minister of Finance to have the privilege of inspecting all their proceedings.

REMARK 20. It is necessary, for reciprocal security of the public, the proprietors, and the people, that the affairs of the bank should be conducted under a joint direction.

These, as has been already observed, are only intended as outlines; the form of administration for the bank, and all other matters, may be easily determined, if the leading principles are once approved. We shall find good models in the different European banks, which we can accommodate to our circumstances. Great care, in particular, should be employed to guard against counterfeits; and I think methods may be devised that would be effectual.

I see nothing to prevent the practicability of a plan of this kind, but a distrust of the final success of the war, which may make men afraid to risk any considerable part of their fortunes in the public funds; but, without being an enthusiast, I will venture to assert, that, with such a resource as is here proposed, the loss of our independence is impossible. All we have to fear is, that the want of money may disband the army, or so perplex and enfeeble our operations as to create in the people a general disgust and alarm, which may make them clamor for peace on any terms. But if a judicious administration of our finances, assisted by a bank, takes place, and the ancient security of property is restored, no convulsion is to be apprehended. Our opposition will soon assume an aspect of system and vigor, that will relieve and encourage the people, and put an end to the hopes of the enemy. 'T is evident that they have it not in their power to subdue us by force of arms. In all these States they have not more than fifteen thousand effective troops, nor is it possible for them much to augment this number. The East and West Indies demand reinforcements. In all the

islands, they have not, at this time, above five thousand men; a force not more than equal to the proper garrisoning of Jamaica alone; and which, the moment they lose a maritime superiority in those seas, will leave them much cause to fear for their possessions. They will probably send out fifteen hundred to two thousand men, to recruit their regiments already here; but this is the utmost they can do.

Our allies have five thousand men at Rhode Island, which, in the worst event that can happen, will be recruited to eight, to co-operate with us on a defensive plan. Should our army amount to no more than fifteen thousand men, the combined forces, though not equal to the expulsion of the enemy, will be equal to the purpose of compelling them to renounce their offensive, and to content themselves with maintaining one or two capital points. This is on the supposition that the public have the means of putting their troops in activity. By stopping the progress of their conquests, and reducing them to an unmeaning and disgraceful defensive, we destroy the national expectation of success, from which the ministry draw their resources. It is not a vague conjecture, but a fact founded on the best information, that, had it not been for the capture of Charleston and the victory of Camden, the ministry would have been in the utmost embarrassment for the supplies of this year. On the credit of those events they procured a loan of five and twenty millions. They are in a situation where a want of splendid success is ruin. They

have carried taxation nearly to its extreme boundary; they have mortgaged all their funds; they have a large unfunded debt, besides the enormous mass which is funded. This must necessarily create apprehensions in their most sanguine partisans; and if these are not counteracted by flattering events, from time to time, they cannot much longer continue the delusion. Indeed, in this case, I suppose they must themselves despair.

The game we play is a sure game, if we play it with skill. I have calculated, in the preceding observations, on the most disadvantageous side. Many events may turn up, in the course of the summer, to make even the present campaign decisive.

If we compare the real ability of France, for revenue, with that of Great Britain; the economy and sagacity in the conduct of the finances of the former; the extravagance and dissipation which are overwhelming those of the latter; there will be found every reason to believe that the resources of France will outlast those of her adversary. Her fleet is not much inferior, independent of that of Spain and Holland. Combined with that of Spain, it is greatly superior. If the Dutch enter into the war in earnest, and add their fleet, the superiority will be irresistible. Notwithstanding the injury they may sustain in the first instance, the Dutch will be still formidable: they are rich in credit, and have extensive means for maritime power.

Except the Emperor, who is hostile, and the Dane, who is neutral, all the rest of Europe are either friends to France or to our independence.

Never did a nation unite more circumstances in its favor than we do; we have nothing against us but our own misconduct.

There are two classes of men among us, equally mistaken: one who, in spite of daily experience, of accumulated distress, persist in a narrow line of policy, and, amidst the most threatening dangers, fancy every thing in perfect security. Another, who, judging too much from the outside, alarmed by partial misfortunes and the disordered state of our finances, without estimating the real faculties of the parties, give themselves up to an ignorant and ill-founded despondency. We want to learn to appreciate our true situation and that of the enemy. This would preserve us from a stupid insensibility to danger on the one hand, and inspire us with a reasonable and enlightened confidence on the other.

But let us suppose the worst—that we shall, after all, fail in our independence; our return to Great Britain, whenever it should happen, would be by compact. The war would terminate by a mediation. It cannot be supposed that the mediator would be so devoted to Great Britain, or would have so little consideration for France, as to oblige us to revert to our former subjection by an unconditional surrender. While they might confirm his dominion over us, they would endeavor to save appearances for the honor of France, and stipulate terms as favorable to us as would be compatible with a state of dependence. A general amnesty, and the security of private property (of course, the payment of public debts), would be among the most simple and

most indispensable. This would comprehend the concerns of the bank; and if, unfortunately for our virtue, such a circumstance could operate as an inducement, it might be added that our enemies would be glad to find and to encourage such an institution among us for their own benefit.

A question may arise concerning the abilities of these States to pay their debts after the establishment of their independence; and though any doubt on this head must originate from gross ignorance, it may be necessary to oppose it with more than general argument, as has been done heretofore. A very summary and obvious calculation will show that there is nothing to be dreaded on this head.

The funds of nine hundred and seventy-nine thousand three hundred and thirty-three and one third dollars, proposed to be established for paying off the loan of the first year and for redeeming the present paper, will in thirty years wipe off all the debts of the States, except those contracted to foreigners, which, I imagine, do not amount to four millions of dollars. Suppose we should be obliged, for two years besides the present, to borrow an equal sum each year from the bank; the fund requisite to discharge these loans, on the same terms as the first, will amount to seven hundred and thirty-six thousand dollars, to be deducted from the five million and twenty thousand six hundred and sixty-six and two thirds dollars remaining on the annual revenue, which will reduce it to four millions two hundred and eighty-four thousand six hundred and sixty-six and two thirds dollars; then the debt unfunded will be:

| | |
|---|---|
| To foreigners already contracted by supposition . . . . . | $4,000,000 |
| Deficiency of revenue to the expense to be obtained on credit, the first year, besides the loan from the bank . . | 1,479,333⅓ |
| Deficiency of revenue for the second year, deducting the fund for discharging the loan of this year . . . . . | 1,847,333⅓ |
| Deficiency of revenue for the third year, making the same deduction . . | 2,215,333⅓ |
| | $9,542,000 |

Should, then, the war last three years longer, which must probably be the utmost term of its duration, we shall find ourselves with an unfunded debt of nine million five hundred and forty-two thousand dollars, and an unappropriated revenue of four million two hundred and eighty-four thousand six hundred and sixty-six and two thirds dollars.

The surplus of four millions, which is two hundred and eighty-four thousand six hundred and sixty-six and two thirds dollars, and the funds appropriated to the payment of the other debts which will revert to the public at the end of thirty years, will be a sufficient fund for the redemption of this debt in about thirty-five years; so that, according to my plan, at the end of thirty-five years these States have paid off the whole debt contracted on account of the war; and, in the meantime, will have a clear revenue of four millions of dollars for defraying the expenses of their civil and military establishments.

This calculation supposes the ability of these States for revenue to continue the same as they now are, which is a supposition both false and unfavor-

able. Speaking within moderate bounds, our population will be doubled in thirty years; there will be a confluence of emigrants from all parts of the world, our commerce will have a proportionable progress, and of course our wealth and capacity for revenue. It will be a matter of choice if we are not out of debt in twenty years, without at all encumbering the people.

A national debt, if it is not excessive, will be to us a national blessing. It will be a powerful cement of our Union. It will also create a necessity for keeping up taxation to a degree which, without being oppressive, will be a spur to industry, remote as we are from Europe, and shall be from danger. It were otherwise to be feared our popular maxims would incline us to too great parsimony and indulgence. We labor less now than any civilized nation of Europe; and a habit of labor in the people is as essential to the health and vigor of their minds and bodies, as it is conducive to the welfare of the state. We ought not to suffer our self-love to deceive us in a comparison upon these points.

I have spun out this letter to a much greater length than I intended. To develop the whole connection of my ideas on the subject, and place my plan in the clearest light, I have indulged myself in many observations which might have been omitted. I shall not longer intrude upon your patience than to assure you of the sincere sentiments of esteem with which I have the honor to be,

Sir, your most obedient and humble servant,

A. HAMILTON.

## NATIONAL BANK

Communicated to the House of Representatives, December 14, 1790.

TREASURY DEPARTMENT, December 13, 1790.

In obedience to the order of the House of Representatives of the ninth day of August last, requiring the Secretary of the Treasury to prepare and report on this day such further provision as may, in his opinion, be necessary for establishing the public credit, the said Secretary further respectfully reports:

That, from a conviction (as suggested in his report herewith presented[1]) that a national bank is an institution of primary importance to the prosperous administration of the finances, and would be of the greatest utility in the operations connected with the support of the public credit, his attention has been drawn to devising the plan of such an institution, upon a scale which will entitle it to the confidence, and be likely to render it equal to the exigencies, of the public.

Previously to entering upon the detail of this plan, he entreats the indulgence of the House towards some preliminary reflections naturally arising out of the subject, which he hopes will be deemed neither useless nor out of place. Public opinion being the ultimate arbiter of every measure of government, it can scarcely appear improper, in deference to that, to accompany the origination of any new proposition with explanations, which the superior informa-

[1] See Report on "Public Credit," vol. ii., p. 337.

tion of those to whom it is immediately addressed would render superfluous.

It is a fact, well understood, that public banks have found admission and patronage among the principal and most enlightened commercial nations. They have successively obtained in Italy, Germany, Holland, England, and France, as well as in the United States. And it is a circumstance which cannot but have considerable weight, in a candid estimate of their tendency, that after an experience of centuries, there exists not a question about their utility in the countries in which they have been so long established. Theorists and men of business unite in the acknowledgment of it.

Trade and industry, wherever they have been tried, have been indebted to them for important aid, and government has been repeatedly under the greatest obligations to them in dangerous and distressing emergencies. That of the United States, as well in some of the most critical conjunctures of the late war, as since the peace, has received assistance from those established among us, with which it could not have dispensed.

With this twofold evidence before us, it might be expected that there would be a perfect union of opinions in their favor. Yet doubts have been entertained; jealousies and prejudices have circulated; and, though experience is every day dissipating them, within the spheres in which effects are best known, yet there are still persons by whom they have not been entirely renounced. To give a full and accurate view of the subject, would be to make

a treatise of a report; but there are certain aspects in which it may be cursorily exhibited, which may perhaps conduce to a just impression of its merits. These will involve a comparison of the advantages, with the disadvantages, real or supposed, of such institutions.

The following are among the principal advantages of a bank:

First.—The augmentation of the active or productive capital of a country. Gold and silver, when they are employed merely as the instruments of exchange and alienation, have not been improperly denominated dead stock; but when deposited in banks, to become the basis of a paper circulation, which takes their character and place, as the signs or representatives of value, they then acquire life, or, in other words, an active and productive quality. This idea, which appears rather subtile and abstract in a general form, may be made obvious and palpable, by entering into a few particulars. It is evident, for instance, that the money which a merchant keeps in his chest, waiting for a favorable opportunity to employ it, produces nothing till that opportunity arrives. But if, instead of locking it up in this manner, he either deposits it in a bank, or invests it in the stock of a bank, it yields a profit during the interval, in which he partakes, or not, according to the choice he may have made of being a depositor or a proprietor; and when any advantageous speculation offers, in order to be able to embrace it, he has only to withdraw his money, if a depositor, or, if a proprietor, to obtain a loan from the bank, or to dispose of his stock—an alternative seldom or

never attended with difficulty, when the affairs of the institution are in a prosperous train. His money, thus deposited or invested, is a fund upon which himself and others can borrow to a much larger amount. It is a well-established fact, that banks in good credit can circulate a far greater sum than the actual quantum of their capital in gold and silver. The extent of the possible excess seems indeterminate; though it has been conjecturally stated at the proportions of two and three to one. This faculty is produced in various ways. 1st. A great proportion of the notes which are issued, and pass current as cash, are indefinitely suspended in circulation, from the confidence which each holder has, that he can, at any moment, turn them into gold and silver. 2dly. Every loan which a bank makes, is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes, or in gold or silver, at his option. But, in a great number of cases, no actual payment is made in either. The borrower, frequently, by a check or order, transfers his credit to some other person, to whom he has a payment to make; who, in his turn, is as often content with a similar credit, because he is satisfied that he can, whenever he pleases, either convert it into cash, or pass it to some other hand, as an equivalent for it. And in this manner the credit keeps circulating, performing in every stage the office of money, till it is extinguished by a discount with some person who has a payment to make to the bank, to an equal or greater amount. Thus large sums are lent and paid, frequently

through a variety of hands, without the intervention of a single piece of coin. 3dly. There is always a large quantity of gold and silver in the repositories of the bank, besides its own stock, which is placed there, with a view partly to its safe-keeping, and partly to the accommodation of an institution which is itself a sort of general accommodation. These deposits are of immense consequence in the operations of a bank. Though liable to be redrawn at any moment, experience proves, that the money so much oftener changes proprietors than place, and that what is drawn out is generally so speedily replaced, as to authorize the counting upon the sums deposited, as an *effective fund*, which, concurring with the stock of the bank, enables it to extend its loans, and to answer all the demands for coin, whether in consequence of those loans, or arising from the occasional return of its notes.

These different circumstances explain the manner in which the ability of a bank to circulate a greater sum than its actual capital in coin is acquired. This, however, must be gradual, and must be preceded by a firm establishment of confidence—a confidence which may be bestowed on the most rational grounds, since the excess in question will always be bottomed on good security of one kind or another. This, every well-conducted bank carefully requires, before it will consent to advance either its money or its credit, and where there is an auxiliary capital (as will be the case in the plan hereafter submitted), which, together with the capital in coin, defines the boundary that shall not be exceeded by the engage-

ments of the bank, the security may, consistently with all the maxims of a reasonable circumspection, be regarded as complete.

The same circumstances illustrate the truth of the position, that it is one of the properties of banks to increase the active capital of a country. This, in other words, is the sum of them: the money of one individual, while he is waiting for an opportunity to employ it, by being either deposited in the bank for safe-keeping, or invested in its stock, is in a condition to administer to the wants of others, without being put out of his own reach when occasion presents. This yields an extra profit, arising from what is paid for the use of his money by others, when he could not himself make use of it, and keeps the money itself in a state of incessant activity. In the almost infinite vicissitudes and competitions of mercantile enterprise, there never can be danger of an intermission of demand, or that the money will remain for a moment idle in the vaults of the bank. This additional employment given to money, and the faculty of a bank to lend and circulate a greater sum than the amount of its stock in coin, are, to all purposes of trade and industry, an absolute increase of capital. Purchases and undertakings, in general, can be carried on by any given sum of bank paper or credit, as effectually as by an equal sum of gold and silver. And thus, by contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth—a consequence as satisfactorily verified by experience, as it is clearly deducible in theory.

Secondly.—Greater facility as to the government in obtaining pecuniary aids, especially in sudden emergencies. This is another and an undisputed advantage of public banks—one which, as already remarked, has been realized in signal instances among ourselves. The reason is obvious: the capitals of a great number of individuals are, by this operation, collected to a point, and placed under one direction. The mass formed by this union, is, in a certain sense, magnified by the credit attached to it; and while this mass is always ready, and can at once be put in motion, in aid of the government, the interest of the bank to afford that aid, independent of regard to the public safety and welfare, is a sure pledge for its disposition to go as far in its compliances as can in prudence be desired. There is, in the nature of things, as will be more particularly noticed in another place, an intimate connection of interest between the government and the bank of a nation.

Thirdly.—The facilitating of the payment of taxes. This advantage is produced in two ways. Those who are in a situation to have access to the bank, can have the assistance of loans, to answer, with punctuality, the public calls upon them. This accommodation has been sensibly felt in the payment of the duties heretofore laid by those who reside where establishments of this nature exist. This, however, though an extensive, is not a universal, benefit. The other way in which the effect here contemplated is produced, and in which the benefit is general, is the increasing of the quantity of circulating medium, and the quickening of circulation.

The manner in which the first happens has already been traced. The last may require some illustration. When payments are to be made between different places having an intercourse of business with each other, if there happen to be no private bills at market, and there are no bank-notes which have a currency in both, the consequence is, that coin must be remitted. This is attended with trouble, delay, expense, and risk. If, on the contrary, there are bank-notes current in both places, the transmission of these by the post, or any other speedy or convenient conveyance, answers the purpose; and these again, in the alternations of demand, are frequently returned, very soon after, to the place from which they were first sent: whence the transportation and re-transportation of the metals are obviated, and a more convenient and more expeditious medium of payment is substituted. Nor is this all; the metals, instead of being suspended from their usual functions during this process of vibration from place to place, continue in activity, and administer still to the ordinary circulation, which, of course, is prevented from suffering either diminution or stagnation. These circumstances are additional causes of what, in a practical sense, or to the purposes of business, may be called greater plenty of money. And it is evident, that whatever enhances the quantity of circulating money, adds to the ease with which every industrious member of the community may acquire that portion of it of which he stands in need, and enables him the better to pay his taxes, as well as to supply his other wants.

Even where the circulation of the bank paper is not general, it must still have the same effect, though in a less degree. For, whatever furnishes additional supplies to the channels of circulation in one quarter, naturally contributes to keep the streams fuller elsewhere. This last view of the subject serves both to illustrate the position that banks tend to facilitate the payment of taxes, and to exemplify their utility to business of every kind in which money is an agent.

It would be to intrude too much on the patience of the House, to prolong the details of the advantages of banks; especially as all those which might still be particularized are readily to be inferred as consequences from those which have been enumerated. Their disadvantages, real or supposed, are now to be reviewed. The most serious of the charges which have been brought against them are:

That they serve to increase usury;

That they tend to prevent other kinds of lending;

That they furnish temptations to overtrading;

That they afford aid to ignorant adventurers, who disturb the natural and beneficial course of trade;

That they give to bankrupt and fraudulent traders a fictitious credit, which enables them to maintain false appearances and to extend their impositions; and, lastly,

That they have a tendency to banish gold and silver from the country.

There is great reason to believe, that, on a close and candid survey, it will be discovered that these charges are either destitute of foundation, or that, as far as the evils they suggest have been found to

exist, they have proceeded from other, or partial, or temporary causes, are not inherent in the nature and permanent tendency of such institutions, or are more than counterbalanced by opposite advantages. This survey shall be had in the order in which the charges have been stated. The first of them is—

That banks serve to increase usury.

It is a truth, which ought not to be denied, that the method of conducting business, which is essential to bank operations, has, among us, in particular instances, given occasion to usurious transactions. The punctuality in payment, which they necessarily exact, has sometimes obliged those who have adventured beyond both their capital and their *credit*, to procure money at any price, and, consequently, to resort to usurers for aid.

But experience and practice gradually bring a cure to this evil. A general habit of punctuality among traders is the natural consequence of the necessity of observing it with the bank—a circumstance which itself more than compensates for any occasional ill which may have sprung from that necessity in the particular under consideration. As far, therefore, as traders depend on each other for pecuniary supplies, they can calculate their expectations with greater certainty; and are in proportionably less danger of disappointments, which might compel them to have recourse to so pernicious an expedient as that of borrowing at usury; the mischiefs of which, after a few examples, naturally inspire great care in all but men of desperate circumstances, to avoid the possibility of being subjected to them.

One, and not the least, of these evils incident to the use of that expedient, if the fact be known, or even strongly suspected, is loss of credit with the bank itself.

The directors of a bank, too, though, in order to extend its business and its popularity in the infancy of an institution, they may be tempted to go further in accommodation than the strict rules of prudence will warrant, grow more circumspect, of course, as its affairs become better established, and as evils of too great facility are experimentally demonstrated. They become more attentive to the situation and conduct of those with whom they deal; they observe more narrowly their operations and pursuits; they economize the credit they give to those of suspicious solidity; they refuse it to those whose career is more manifestly hazardous. In a word, in the course of practice, from the very nature of things, the *interest* will make it the *policy* of a bank to succor the wary and industrious, to discredit the rash and unthrifty, to discountenance both usurious lenders and usurious borrowers.

There is a leading view, in which the tendency of banks will be seen to be to abridge, rather than to promote, usury. This relates to their property of increasing the quantity and quickening the circulation of money. If it be evident, that usury will prevail or diminish according to the proportion which the demand for borrowing bears to the quantity of money at market to be lent, whatever has the property just mentioned, whether it be in the shape of paper or coin, by contributing to render the sup-

ply more equal to the demand, must tend to counteract the progress of usury.

But bank-lending, it is pretended, is an impediment to other kinds of lending; which, by confining the resource of borrowing to a particular class, leaves the rest of the community more destitute, and, therefore, more exposed to the extortions of usurers. As the profits of bank stock exceed the legal rate of interest, the possessors of money, it is urged, prefer investing it in that article to lending it at this rate; to which there are the additional motives of a more prompt command of the capital, and of more frequent and exact returns, without trouble or perplexity in the collection. This constitutes the second charge which has been enumerated.

The fact on which this charge rests is not to be admitted without several qualifications—particularly in reference to the state of things in this country.

*First.* The great bulk of the stock of a bank will consist of the funds of men in trade, among ourselves, and moneyed foreigners; the former of whom could not spare their capitals out of their reach, to be invested in loans for long periods, on mortgages or personal security; and the latter of whom would not be willing to be subjected to the casualties, delays, and embarrassments of such a disposition of their money in a distant country.

*Secondly.* There will always be a considerable proportion of those who are properly the money-lenders of a country, who, from that spirit of caution which usually characterizes this description of men, will incline rather to invest their funds in mortgages on

real estate, than in the stock of a bank, which they are apt to consider as a more precarious security.

These considerations serve, in a material degree, to narrow the foundation of the objection, as to the point of fact. But there is a more satisfactory answer to it. The effect supposed, as far as it has existence, is temporary. The reverse of it takes place in the general and permanent operation of the thing.

The capital of every public bank will, of course, be restricted within a certain defined limit. It is the province of legislative prudence so to adjust this limit, that, while it will not be too contracted for the demand which the course of business may create, and for the security which the public ought to have for the solidity of the paper which may be issued by the bank, it will still be within the compass of the pecuniary resources of the community; so that there may be an easy practicability of completing the subscriptions to it. When this is once done, the supposed effect, of necessity, ceases. There is then no longer room for the investment of any additional capital. Stock may, indeed, change hands, by one person selling and another buying; but the money which the buyer takes out of the common mass to purchase the stock, the seller receives and restores to it. Hence, the future surpluses which may accumulate must take their natural course, and lending at interest must go on as if there were no such institution.

It must, indeed, flow in a more copious stream. The bank furnishes an extraordinary supply for

borrowers, within its immediate sphere. A larger supply consequently remains for borrowers elsewhere. In proportion as the circulation of the bank is extended, there is an augmentation of the aggregate mass of money for answering the aggregate mass of demand. Hence greater facility in obtaining it for every purpose.

It ought not to escape without a remark, that, as far as the citizens of other countries become adventurers in the bank, there is a positive increase of the gold and silver of the country. It is true, that, from this, a half yearly rent is drawn back, accruing from the dividends upon the stock. But as this rent arises from the employment of the capital by our own citizens, it is probable that it is more than replaced by the profits of that employment. It is also likely that a part of it is, in the course of trade, converted into the products of our country; and it may even prove an incentive, in some cases, to emigration to a country in which the character of citizen is as easy to be acquired as it is estimable and important. This view of the subject furnishes an answer to an objection which has been deduced from the circumstance here taken notice of, namely, the income resulting to foreigners from the part of the stock owned by them, which has been represented as tending to drain the country of its specie. In this objection the original investment of the capital, and the constant use of it afterwards, seem both to have been overlooked.

That banks furnish temptations to overtrading, is the third of the enumerated objections. This must

mean, that, by affording additional aids to mercantile enterprise, they induce the merchant sometimes to adventure beyond the prudent or salutary point. But the very statement of the thing shows that the subject of the charge is an occasional ill, incident to a general good. Credit of every kind (as a species of which only can bank-lending have the effect supposed) must be, in different degrees, chargeable with the same inconvenience. It is even applicable to gold and silver, when they abound in circulation. But would it be wise, on this account, to decry the precious metals, to root out credit, or to proscribe the means of that enterprise which is the mainspring of trade, and a principal source of national wealth, because it now and then runs into excesses, of which overtrading is one?

If the abuses of a beneficial thing are to determine its condemnation, there is scarcely a source of public prosperity which will not speedily be closed. In every case, the evil is to be compared with the good; and in the present case such a comparison will issue in this, that the new and increased energies derived to commercial enterprise, from the aid of banks, are a source of general profit and advantage, which greatly outweigh the partial ills—the overtrading of a few individuals, at particular times, or of numbers in particular conjunctures.

The fourth and fifth charges may be considered together. These relate to the aid which is sometimes afforded by banks to unskilful adventurers and fraudulent traders. These charges, also, have some degree of foundation, though far less than has been

pretended; and they add to the instances of partial ills, connected with more extensive and overbalancing benefits.

The practice of giving fictitious credit to improper persons is one of those evils which experience, guided by interest, speedily corrects. The bank itself is in so much jeopardy of being a sufferer by it, that it has the strongest of all inducements to be on its guard. It may not only be injured immediately by the delinquencies of the persons to whom such credit is given, but eventually by the incapacities of others, whom their impositions or failures may have ruined.

Nor is there much danger of a bank's being betrayed into this error from want of information. The directors themselves being, for the most part, selected from the class of traders, are to be expected to possess, individually, an accurate knowledge of the characters and situations of those who come within that description. And they have, in addition to this, the course of dealing of the persons themselves with the bank to assist their judgment, which is, in most cases, a good index of the state in which those persons are. The artifices and shifts which those in desperate or declining circumstances are obliged to employ, to keep up the countenance which the rules of the bank require, and the train of their connections, are so many prognostics, not difficult to be interpreted, of the fate which awaits them. Hence, it not unfrequently happens, that banks are the first to discover the unsoundness of such characters, and, by withholding credit, to announce to the public that they are not entitled to it.

If banks, in spite of every precaution, are sometimes betrayed into giving a false credit to the persons described, they more frequently enable honest and industrious men, of small, or, perhaps, of no capital, to undertake and prosecute business with advantage to themselves and to the community; and assist merchants, of both capital and credit, who meet with fortuitous and unforeseen shocks, which might, without such helps, prove fatal to them and to others, to make head against their misfortunes, and finally to retrieve their affairs—circumstances which form no inconsiderable encomium on the utility of banks.

But the last and heaviest charge is still to be examined: this is, that banks tend to banish the gold and silver of the country.

The force of this objection rests upon their being an engine of paper credit, which, by furnishing a substitute for the metals, is supposed to promote their exportation. It is an objection which, if it has any foundation, lies not against banks peculiarly, but against every species of paper credit.

The most common answer given to it is, that the thing supposed is of little or of no consequence; that it is immaterial what serves the purpose of money, whether paper, or gold and silver; that the effect of both upon industry is the same; and that the intrinsic wealth of a nation is to be measured, not by the abundance of the precious metals contained in it, but by the quantity of the productions of its labor and industry.

This answer is not destitute of solidity, though

not entirely satisfactory. It is certain that the vivification of industry, by a full circulation, with the aid of a proper and well-regulated paper credit, may more than compensate for the loss of a part of the gold and silver of a nation, if the consequence of avoiding that loss should be a scanty or defective circulation.

But the positive and permanent increase or decrease of the precious metals in the country can hardly ever be a matter of indifference. As the commodity taken in lieu of every other, it is a species of the most effective wealth; and as the money of the world, it is of great concern to the state, that it possess a sufficiency of it to face any demands which the protection of its external interest may create.

The objection seems to admit of another and a more conclusive answer, which controverts the fact itself. A nation that has no mines of its own must derive the precious metals from others; generally speaking, in exchange for the products of its labor and industry. The quantity it will possess will, therefore, in the ordinary course of things, be regulated by the favorable or unfavorable balance of its trade; that is, by the proportion between its abilities to supply foreigners, and its wants of them—between the amount of its exportations and that of its importations. Hence, the state of its agriculture and manufactures, the quantity and quality of its labor and industry, must, in the main, influence and determine the increase or decrease of its gold and silver.

If this be true, the inference seems to be, that well-constituted banks favor the increase of the

precious metals. It has been shown that they augment, in different ways, the active capital of a country. This it is which generates employment—which animates and expands labor and industry. Every addition which is made to it, by contributing to put in motion a greater quantity of both, tends to create a greater quantity of the products of both; and, by furnishing more materials for exportation, conduces to a favorable balance of trade, and, consequently, to the introduction and increase of gold and silver.

This conclusion appears to be drawn from solid premises. There are, however, objections to be made to it.

It may be said that, as bank paper affords a substitute for specie, it serves to counteract that rigorous necessity for the metals, as a medium of circulation, which, in the case of a wrong balance, might restrain, in some degree, their exportation; and it may be added that, from the same cause, in the same case, it would retard those economical and parsimonious reforms in the manner of living which the scarcity of money is calculated to produce, and which might be necessary to rectify such wrong balance.

There is, perhaps, some truth in both these observations; but they appear to be of a nature rather to form exceptions to the generality of the conclusion, than to overthrow it. The state of things in which the *absolute exigencies* of circulation can be supposed to resist, with any effect, the urgent demands for specie which a wrong balance of trade may occasion,

presents an *extreme case*. And a situation in which a too expensive manner of living of a community, compared with its means, can stand in need of a corrective, from distress or necessity, is one which, perhaps, rarely results but from extraordinary and adventitious causes—such, for example, as a national revolution; which unsettles all the established habits of the people, and inflames the appetite for extravagance, by the illusions of an ideal wealth, engendered by the continual multiplication of a depreciating currency, or some similar cause. There is a good reason to believe that, where the laws are wise and well executed, and the inviolability of property and contracts maintained, the economy of a people will, in the general course of things, correspond with its means.

The support of industry is, probably in every case, of more consequence towards correcting a wrong balance of trade, than any practicable retrenchments in the expenses of families or individuals; and the stagnation of it would be likely to have more effect in prolonging, than any such savings in shortening, its continuance. That stagnation is a natural consequence of an inadequate medium, which, without the aid of bank circulation, would, in the cases supposed, be severely felt.

It also deserves notice that, as the circulation is always in a compound ratio to the fund upon which it depends, and to the demand for it, and as that fund is itself affected by the exportation of the metals, there is no danger of its being overstocked, as in the case of paper issued at the pleasure of the govern-

ment, or of its preventing the consequences of any unfavorable balance from being sufficiently felt to produce the reforms alluded to, as far as circumstances may require and admit.

Nothing can be more fallible than the comparisons which have been made between different countries, to illustrate the truth of the position under consideration. The comparative quantity of gold and silver in different countries depends upon an infinite variety of facts and combinations, all of which ought to be known in order to judge whether the existence or non-existence of paper currencies has any share in the relative proportions they contain. The *mass* and *value* of the productions of the labor and industry of each, compared with its wants; the nature of its establishments abroad; the kind of wars in which it is usually engaged; the relations it bears to the countries which are the original possessors of those metals; the privileges it enjoys in their trade; —these, and a number of other circumstances, are all to be taken into the account, and render the investigation too complex to justify any reliance on the vague and general surmises which have hitherto been hazarded on the point.

In the foregoing discussion, the objection has been considered as applying to the permanent expulsion and diminution of the metals. Their temporary exportation, for particular purposes, has not been contemplated. This, it must be confessed, is facilitated by banks, from the faculty they possess of supplying their place. But their utility is in nothing more conspicuous than in these very cases. They enable

the government to pay its foreign debts, and to answer any exigencies which the external concerns of the community may have produced. They enable the merchant to support his credit (on which the prosperity of trade depends), when special circumstances prevent remittances in other modes. They enable him also to prosecute enterprises which ultimately tend to an augmentation of the species of wealth in question. It is evident that gold and silver may often be employed in procuring commodities abroad, which, in a circuitous commerce, replace the original fund, with considerable addition. But it is not to be inferred, from this facility given to temporary exportation, that banks, which are so friendly to trade and industry, are, in their general tendency, inimical to the increase of the precious metals.

These several views of the subject appear sufficient to impress a full conviction of the utility of banks, and to demonstrate that they are of great importance, not only in relation to the administration of the finances but in the general system of the political economy.

The judgment of many concerning them has, no doubt, been perplexed by the misinterpretation of appearances which were to be ascribed to other causes. The general devastation of personal property, occasioned by the late war, naturally produced, on the one hand, a great demand for money, and, on the other, a great deficiency of it to answer the demand. Some injudicious laws, which grew out of the public distresses, by impairing confidence, and

causing a part of the inadequate sum in the country to be locked up, aggravated the evil. The dissipated habits contracted by many individuals during the war, which, after the peace, plunged them into expenses beyond their incomes; the number of adventurers without capital, and, in many instances, without information, who at that epoch rushed into trade, and were obliged to make any sacrifice to support a transient credit; the employment of considerable sums in speculations upon the public debt, which, from its unsettled state, was incapable of becoming itself a substitute; all these circumstances concurring, necessarily led to usurious borrowing, produced most of the inconveniences, and were the true causes of most of the appearances which, where banks were established, have been by some erroneously placed to their account—a mistake which they might easily have avoided by turning their eyes toward places where there were none, and where, nevertheless, the same evils would have been perceived to exist, even in a greater degree than where those institutions had obtained.

These evils have either ceased or been greatly mitigated. Their more complete extinction may be looked for from that additional security to property which the Constitution of the United States happily gives (a circumstance of prodigious moment in the scale both of public and private prosperity); from the attraction of foreign capital, under the auspices of that security, to be employed upon objects and in enterprises for which the state of this country opens a wide and inviting field; from the consistency and

stability which the public debt is fast acquiring, as well in the public opinion at home and abroad, as in fact; from the augmentation of capital which that circumstance and the quarter-yearly payment of interest will afford; and from the more copious circulation which will be likely to be created by a well-constituted national bank.

The establishment of banks in this country seems to be recommended by reasons of a peculiar nature. Previously to the Revolution, circulation was in a great measure carried on by paper emitted by the several local governments. In Pennsylvania alone the quantity of it was near a million and a half of dollars. This auxiliary may be said to be now at an end. And it is generally supposed that there has been, for some time past, a deficiency of circulating medium. How far that deficiency is to be considered as real or imaginary, is not susceptible of demonstration; but there are circumstances and appearances which, in relation to the country at large, countenance the supposition of its reality.

The circumstances are, besides the fact just mentioned respecting paper emissions, the vast tracts of waste land, and the little advanced state of manufactures. The progressive settlement of the former, while it promises ample retribution in the generation of future resources, diminishes or obstructs, in the meantime, the *active* wealth of the country. It not only draws off a part of the circulating money, and places it in a more passive state, but it diverts into its own channels a portion of that species of labor and industry which would otherwise be employed in

furnishing materials for foreign trade, and which, by contributing to a favorable balance, would assist the introduction of specie. In the early periods of new settlements, the settlers not only furnish no surplus for exportation, but they consume a part of that which is produced by the labor of others. The same thing is a cause that manufactures do not advance, or advance slowly. And notwithstanding some hypotheses to the contrary, there are many things to induce a suspicion that the precious metals will not abound in any country which has not mines, or variety of manufactures. They have been sometimes acquired by the sword; but the modern system of war has expelled this resource, and it is one upon which it is to be hoped the United States will never be inclined to rely.

The appearances alluded to are: Greater prevalency of direct barter, in the more interior districts of the country, which, however, has been for some time past gradually lessening; and greater difficulty generally in the advantageous alienation of improved real estate, which also has of late diminished, but is still seriously felt in different parts of the Union. The difficulty of getting money, which has been a general complaint, is not added to the number, because it is the complaint of all times, and one in which imagination must ever have too great scope to permit an appeal to it.

If the supposition of such a deficiency be in any degree well founded, and some aid to circulation be desirable, it remains to inquire what ought to be the nature of that aid.

The emitting of paper money by the authority of the government is wisely prohibited to the individual States by the National Constitution; and the spirit of that prohibition ought not to be disregarded by the Government of the United States. Though paper emissions, under a general authority, might have some advantages not applicable, and be free from some disadvantages which are applicable, to the like emissions by the States, separately, yet they are of a nature so liable to abuse—and, it may even be affirmed, so certain of being abused,—that the wisdom of the government will be shown in never trusting itself with the use of so seducing and dangerous an expedient. In times of tranquillity it might have no ill consequence,—it might even perhaps be managed in a way to be productive of good; but in great and trying emergencies there is almost a moral certainty of its becoming mischievous. The stamping of paper is an operation so much easier than the laying of taxes, that a government in the practice of paper emissions would rarely fail, in any such emergency, to indulge itself too far in the employment of that resource, to avoid, as much as possible, one less auspicious to present popularity. If it should not even be carried so far as to be rendered an absolute bubble, it would at least be likely to be extended to a degree which would occasion an inflated and artificial state of things, incompatible with the regular and prosperous course of the political economy.

Among other material differences between a paper currency, issued by the mere authority of govern-

ment, and one issued by a bank, payable in coin, is this: That, in the first case, there is no standard to which an appeal can be made, as to the quantity which will only satisfy, or which will surcharge, the circulation; in the last, that standard results from the demand. If more should be issued than is necessary, it will return upon the bank. Its emissions, as elsewhere intimated, must always be in a compound ratio to the fund and the demand: whence it is evident that there is a limitation in the nature of the thing; while the discretion of the government is the only measure of the extent of the emissions, by its own authority.

This consideration further illustrates the danger of emissions of that sort, and the preference which is due to bank paper.

The payment of the interest of the public debt at thirteen different places is a weighty reason, peculiar to our immediate situation, for desiring a bank circulation. Without a paper, in general currency, equivalent to gold and silver, a considerable proportion of the specie of the country must always be suspended from circulation, and left to accumulate, preparatory to each day of payment; and as often as one approaches, there must in several cases be an actual transportation of the metals, at both expense and risk, from their natural and proper reservoirs, to distant places. This necessity will be felt very injuriously to the trade of some of the States, and will embarrass not a little the operations of the treasury in those States. It will also obstruct those negotiations, between different parts of the Union, by

the instrumentality of treasury bills, which have already afforded valuable accommodations to trade in general.

Assuming it, then, as a consequence, from what has been said, that a national bank is a desirable institution, two inquiries emerge: Is there no such institution already in being, which has a claim to that character, and which supersedes the propriety or necessity of another? If there be none, what are the principles upon which one ought to be established?

There are at present three banks in the United States: that of North America, established in the city of Philadelphia; that of New York, established in the city of New York; that of Massachusetts, established in the town of Boston. Of these three, the first is the only one which has at any time had a direct relation to the Government of the United States.

The Bank of North America originated in a resolution of Congress of the 26th of May, 1781, founded upon a proposition of the Superintendent of Finance, which was afterwards carried into execution by an ordinance of the 31st of December following, entitled "An ordinance to incorporate the subscribers to the Bank of North America."

The aid afforded to the United States by this institution, during the remaining period of the war, was of essential consequence; and its conduct towards them since the peace has not weakened its title to their patronage and favor. So far its pretensions to the character in question are respectable, but there are circumstances which militate against them, and

considerations which indicate the propriety of an establishment on different principles.

The directors of this bank, on behalf of their constituents, have since *accepted*, and *acted* under, a new charter, from the State of Pennsylvania, materially variant from their original one, and which so narrows the foundation of the institution as to render it an incompetent basis for the extensive purposes of a national bank.

The limit assigned by the ordinance of Congress to the stock of the bank is ten millions of dollars. The last charter of Pennsylvania confines it to two millions. Questions naturally arise whether there be not a direct repugnancy between two charters so differently circumstanced; and whether the acceptance of the one is not to be deemed a virtual surrender of the other. But perhaps it is neither advisable nor necessary to attempt a solution of them.

There is nothing in the acts of Congress which imply an exclusive right in the institution to which they relate, except during the term of the war. There is, therefore, nothing, if the public good require it, which prevents the establishment of another. It may, however, be incidentally remarked, that in the general opinion of the citizens of the United States, the Bank of North America has taken the station of a bank of Pennsylvania only. This is a strong argument for a new institution, or for a renovation of the old, to restore it to the situation in which it originally stood in the view of the United States.

But, though the ordinance of Congress contains

no grant of exclusive privileges, there may be room to allege that the Government of the United States ought not, in point of candor and equity, to establish any rival or interfering institution, in prejudice of the one already established, especially as this has, from services rendered, well-founded claims to protection and regard.

The justice of such an observation ought, within proper bounds, to be admitted. A new establishment of the sort ought not to be made without cogent and sincere reasons of public good. And, in the manner of doing it, every facility should be given to a consolidation of the old with the new, upon terms not injurious to the parties concerned. But there is no ground to maintain that, in a case in which the government has made no condition restricting its authority, it ought voluntarily to restrict it, through regard to the interests of a particular institution, when those of the State dictate a different course, especially, too, after such circumstances have intervened as characterize the actual situation of the Bank of North America.

The inducements to a new disposition of the thing are now to be considered. The first of them which occurs is, the, at least, ambiguous situation in which the Bank of North America has placed itself by the acceptance of its last charter. If this has rendered it the mere bank of a particular State, liable to dissolution at the expiration of fourteen years, to which term the act of that State has restricted its duration, it would be neither fit nor expedient to accept it as an equivalent for a bank of the United States.

The restriction of its capital, also, which, according to the same supposition cannot be extended beyond two millions of dollars, is a conclusive reason for a different establishment. So small a capital promises neither the requisite aid to government nor the requisite security to the community. It may answer very well the purposes of local accommodation, but it is an inadequate foundation for a circulation coextensive with the United States, embracing the whole of their revenues, and affecting every individual into whose hands the paper may come.

And, inadequate as such a capital would be to the essential ends of a national bank, it is liable to being rendered still more so by that principle of the constitution of the Bank of North America, contained equally in its old and in its new charter, which leaves the increase of the *actual* capital at any time (now far short of the allowed extent) to the discretion of the directors or stockholders. It is naturally to be expected that the allurements of an advanced price of stock, and of large dividends, may disincline those who are interested to an extension of capital, from which they will be apt to fear a diminution of profits. And for this circumstance the interest and accommodation of the public (as well individually as collectively) are made more subordinate to the interest, real or imagined, of the stockholders, than they ought to be. It is true that, unless the latter be consulted, there can be no bank (in the sense at least in which institutions of this kind, worthy of confidence, can be established

in this country). But, it does not follow that this alone is to be consulted, or that it even ought to be paramount. Public utility is more truly the object of public banks than private profit. And it is the business of government to constitute them on such principles that, while the latter will result in a sufficient degree to afford competent motives to engage in them, the former be not made subservient to it. To effect this, a principal object of attention ought to be to give free scope to the creation of an ample capital, and with this view, fixing the bounds which are deemed safe and convenient, to leave no discretion either to stop short of them, or to overpass them. The want of this precaution in the establishment of the Bank of North America is a further and an important reason for desiring one differently constituted.

There may be room at first sight for a supposition that, as the profits of a bank will bear a proportion to the extent of its operations, and as for this reason the interest of the stockholders will not be disadvantageously affected by any necessary augmentations of capital, there is no cause to apprehend that they will be indisposed to such augmentations. But most men, in matters of this nature, prefer the certainties they enjoy, to probabilities depending on untried experiments, especially when these promise rather that they will not be injured, than that they will be benefited.

From the influence of this principle, and a desire of enhancing its profits, the directors of a bank will be more apt to overstrain its faculties, in an attempt

to face the additional demands which the course of business may create, than to set on foot new subscriptions, which may hazard a diminution of the profits, and even a temporary reduction of the price of stock.

Banks are among the best expedients for lowering the rate of interest in a country; but, to have this effect, their capitals must be completely equal to all the demands of business, and such as will tend to remove the idea that the accommodations they afford are in any degree favors—an idea very apt to accompany the parsimonious dispensation of contracted funds. In this, as in every other case, the plenty of the commodity ought to beget a moderation of price.

The want of a principle of rotation in the constitution of the Bank of North America is another argument for a variation of the establishment. Scarcely one of the reasons which militate against this principle in the constitution of a country, is applicable to that of a bank; while there are strong reasons in favor of it, in relation to the one, which do not apply to the other. The knowledge to be derived from experience is the only circumstance common to both, which pleads against rotation in the directing officers of a bank.

But the objects of the government of a nation, and those of the government of a bank, are so widely different, as greatly to weaken the force of that consideration in reference to the latter. Almost every important case in legislation requires, toward a right decision, a general and accurate acquaintance

with the affairs of the State, and habits of thinking seldom acquired but from a familiarity with public concerns. The administration of a bank, on the contrary, is regulated by a few simple fixed maxims, the application of which is not difficult to any man of judgment, especially if instructed in the principles of trade. It is, in general, a constant succession of the same details.

But, though this be the case, the idea of the advantages of experience is not to be slighted. Room ought to be left for the regular transmission of official information; and for this purpose, the head of the direction ought to be excepted from the principle of rotation. With this exception, and with the aid of the information of the subordinate officers, there can be no danger of any ill effects from want of experience or knowledge; especially as the periodical exclusion ought not to reach the whole of the directors at one time.

The argument in favor of the principle of rotation is this: that by lessening the danger of combinations among the directors, to make the institution subservient to party views, or to the accommodation, preferably, of any particular set of men, it will render the public confidence more firm, stable, and unqualified.

When it is considered that the directors of a bank are not elected by the great body of the community, in which a diversity of views will naturally prevail at different conjunctures, but by a small and select class of men, among whom it is far more easy to cultivate a steady adherence to the same persons

and objects, and that those directors have it in their power so immediately to conciliate, by obliging the most influential of this class, it is easy to perceive that, without the principle of rotation, changes in that body can rarely happen, but as a concession which they may themselves think it expedient to make to public opinion.

The continual administration of an institution of this kind, by the same persons, will never fail, with or without cause, from their conduct, to excite distrust and discontent. The necessary secrecy of their transactions gives unlimited scope to imagination to infer that something is or may be wrong. And this *inevitable* mystery is a solid reason for inserting in the constitution of a bank the necessity of a change of men. As neither the mass of the parties interested, nor the public in general, can be permitted to be witnesses of the interior management of the directors, it is reasonable that both should have that check upon their conduct, and that security against the prevalency of a partial or pernicious system, which will be produced by the certainty of periodical changes. Such, too, is the delicacy of the credit of a bank, that every thing which can fortify confidence and repel suspicion, without injuring its operations, ought carefully to be sought after in its formation.

A further consideration in favor of a change is the improper rule by which the right of voting for directors is regulated in the plan upon which the Bank of North America was originally constituted—namely, a vote for each share; and the want of a

rule in the last charter,—unless the silence of it, on that point, may signify that every stockholder is to have an equal and a single vote, which would be a rule in a different extreme, not less erroneous. It is of importance that a rule should be established on this head, as it is one of those things which ought not to be left to discretion; and it is, consequently, of equal importance that the rule should be a proper one.

A vote for each share renders a combination between a few principal stockholders, to monopolize the power and benefits of the bank, too easy. An equal vote to each stockholder, however great or small his interest in the institution, allows not that degree of weight to large stockholders which it is reasonable they should have, and which, perhaps, their security and that of the bank require. A prudent mean is to be preferred. A conviction of this has produced a by-law of the corporation of the Bank of North America, which evidently aims at such a mean. But a reflection arises here, that a like majority with that which enacted this law may, at any moment, repeal it.

The last inducement which shall be mentioned is the want of precautions to guard against a foreign influence insinuating itself into the direction of the bank. It seems scarcely reconcilable with due caution to permit that any but citizens should be eligible as directors of a national bank, or that non-resident foreigners should be able to influence the appointment of directors by the votes of their proxies. In the event, however, of an incorporation

of the Bank of North America in the plan, it may be necessary to qualify this principle, so as to leave the right of foreigners, who now hold shares of its stock, unimpaired; but without the power of transmitting the privilege in question to foreign alliances.

It is to be considered that such a bank is not a mere matter of private property, but a political machine of the greatest importance to the State.

There are other variations from the constitution of the Bank of North America not of inconsiderable moment, which appear desirable, but which are not of magnitude enough to claim a preliminary discussion. These will be seen in the plan which will be submitted in the sequel.

If the objections which have been stated to the constitution of the Bank of North America are admitted to be well-founded, they will, nevertheless, not derogate from the merit of the main design, or of the services which that bank has rendered, or of the benefits which it has produced. The creation of such an institution, at the time it took place, was a measure dictated by wisdom. Its utility has been amply evinced by its fruits; American independence owes much to it. And it is very conceivable that reasons of the moment may have rendered those features in it inexpedient, which a revision, with a permanent view, suggests as desirable.

The order of the subject leads next to an inquiry into the principles upon which a national bank ought to be organized.

The situation of the United States naturally inspires a wish that the form of the institution could

admit of a plurality of branches. But various considerations discourage from pursuing this idea. The complexity of such a plan would be apt to inspire doubts, which might deter from adventuring in it. And the practicability of a safe and orderly administration, though not to be abandoned as desperate, cannot be made so manifest in perspective as to promise the removal of those doubts, or to justify the government in adopting the idea as an original experiment. The most that would seem advisable, on this point, is to insert a provision which may lead to it hereafter, if experience shall more clearly demonstrate its utility, and satisfy those who may have the direction, that it may be adopted with safety. It is certain that it would have some advantages, both peculiar and important. Besides more general accommodation, it would lessen the danger of a run upon the bank.

The argument against it is, that each branch must be under a distinct, though subordinate direction, to which a considerable latitude of discretion must, of necessity, be intrusted. And, as the property of the whole institution would be liable for the engagements of each part, that and its credit would be at stake, upon the prudence of the directors of every part. The mismanagement of either branch might hazard serious disorder in the whole.

Another wish, dictated by the particular situation of the country, is, that the bank could be so constituted as to be made an immediate instrument of loans to the proprietors of land; but this wish also yields to the difficulty of accomplishing it. Land is,

alone, an unfit fund for a bank circulation. If the notes issued upon it were not to be payable in coin, on demand, or at a short date, this would amount to nothing more than a repetition of the paper emissions, which are now exploded by the general voice. If the notes are to be payable in coin, the land must first be converted into it by sale, or mortgage. The difficulty of effecting the latter, is the very thing which begets the desire of finding another resource; and the former would not be practicable on a sudden emergency, but with sacrifices which would make the cure worse than the disease. Neither is the idea of constituting the fund partly of coin and partly of land, free from impediments. These two species of property do not, for the most part, unite in the same hands. Will the moneyed man consent to enter into a partnership with the landholder, by which *the latter* will share in the profits *which will be* made *by the money of the former?* The money, it is evident, will be the agent or efficient cause of the profits—the land can only be regarded as an additional security. It is not difficult to foresee, that a union, on such terms, will not readily be formed. If the landholders are to procure the money by sale or mortgage of a part of their lands, this they can as well do when the stock consists wholly of money, as if it were to be compounded of money and land.

To procure for the landholders the assistance of loans, is the great desideratum. Supposing other difficulties surmounted, and a fund created, composed partly of coin and partly of land, yet the benefit contemplated could only then be obtained

by the bank's advancing them its notes for the whole, or part, of the value of the lands they had subscribed to the stock. If this advance was small, the relief aimed at would not be given; if it was large, the quantity of notes issued would be a cause of *distrust;* and, if received at all, they would be likely to return speedily upon the bank for payment; which, after exhausting its coin, might be under a necessity of turning its lands into money, at any price that could be obtained for them, to the irreparable prejudice of the proprietors.

Considerations of public advantage suggest a further wish, which is—that the bank could be established upon principles that would cause the profits of it to redound to the immediate benefit of the State. This is contemplated by many who speak of a national bank, but the idea seems liable to insuperable objections. To attach full confidence to an institution of this nature, it appears to be an essential ingredient in its structure, that it shall be under a *private* not a *public* direction—under the guidance of *individual interest*, not of *public policy;* which would be supposed to be, and, in certain emergencies, under a feeble or too sanguine administration, would really be, liable to being too much influenced by *public necessity*. The suspicion of this would, most probably, be a canker that would continually corrode the vitals of the credit of the bank, and would be most likely to prove fatal in those situations in which the public good would require that they should be most sound and vigorous. It would, indeed, be little less than a miracle, should

the credit of the bank be at the disposal of the government, if, in a long series of time, there was not experienced a calamitous abuse of it. It is true, that it would be the real interest of the government not to abuse it; its genuine policy to husband and cherish it with the most guarded circumspection, as an inestimable treasure. But what government ever uniformly consulted its true interests in opposition to the temptations of momentary exigencies? What nation was ever blessed with a constant succession of upright and wise administrators?

The keen, steady, and, as it were, magnetic sense of their own interest as proprietors, in the directors of a bank, pointing invariably to its true pole—the prosperity of the institution,—is the only security that can always be relied upon for a careful and prudent administration. It is, therefore, the only basis on which an enlightened, unqualified, and permanent confidence can be expected to be erected and maintained.

The precedents of the banks established in several cities of Europe, Amsterdam, Hamburgh, and others, may seem to militate against this position. Without a precise knowledge of all the peculiarities of their respective constitutions, it is difficult to pronounce how far this may be the case. That of Amsterdam, however, which we best know, is rather under a municipal than a governmental direction. Particular magistrates of the city, not officers of the republic, have the management of it. It is also a bank of deposit, not of loan, or circulation; consequently, less liable to abuse, as well as less useful.

Its general business consists in receiving money for safe-keeping, which, if not called for within a certain time, becomes a part of its stock, and irreclaimable. But a credit is given for it on the books of the bank, which, being transferable, answers all the purposes of money.

The directors being magistrates of the city, and the stockholders in general its most influential citizens, it is evident that the principle of private interest must be prevalent in the management of the bank. And it is equally evident that, from the nature of its operations, that principle is less essential to it than to an institution constituted with a view to the accommodation of the public and individuals, by direct loans and a paper circulation.

As far as may concern the aid of the bank, within the proper limits, a good government has nothing more to wish for than it will always possess, though the management be in the hands of private individuals. As the institution, if rightly constituted, must depend for its renovation, from time to time, on the pleasure of the government, it will not be likely to feel a disposition to render itself, by its conduct, unworthy of public patronage. The government, too, in the administration of its finances, has it in its power to reciprocate benefits to the bank, of not less importance than those which the bank affords to the government, and which, besides, are never unattended with an immediate and adequate compensation. Independent of these more particular considerations, the natural weight and influence of a government will always go far towards procuring

a compliance with its desires; and, as the directors will usually be composed of some of the most discreet, respectable, and well-informed citizens, it can hardly ever be difficult to make them sensible of the force of the inducements which ought to stimulate their exertions.

It will not follow, from what has been said, that the state may not be a holder of a part of the stock of a bank, and consequently a sharer in the profits of it. It will only follow that it ought not to desire any participation in the direction of it, and, therefore, ought not to own the whole or a principal part of the stock; for, if the mass of the property should belong to the public, and if the direction of it should be in private hands, this would be to commit the interests of the state to persons not interested, or not enough interested, in their proper management.

There is one thing, however, which the government owes to itself and the community—at least, to all that part of it who are not stockholders—which is, to reserve to itself a right of ascertaining, as often as may be necessary, the state of the bank; excluding, however, all pretension to control. This right forms an article in the primitive constitution of the Bank of North America; and its propriety stands upon the clearest reasons. If the paper of a bank is to be permitted to insinuate itself into all the revenues and receipts of a country, if it is even to be tolerated as the substitute for gold and silver in all the transactions of business, it becomes, in either view, a national concern of the first magnitude. As such, the ordinary rules of prudence require that

the government should possess the means of ascertaining, whenever it thinks fit, that so delicate a trust is executed with fidelity and care. A right of this nature is not only desirable, as it respects the government, but it ought to be equally so to all those concerned in the institution, as an additional title to public and private confidence, and as a thing which can only be formidable to practices that imply mismanagement. The presumption must always be, that the characters who would be intrusted with the exercise of this right, on behalf of the government, will not be deficient in the discretion which it may require; at least, the admitting this presumption cannot be deemed too great a return of confidence for that very large portion of it which the government is required to place in the bank.

Abandoning, therefore, ideas which, however agreeable or desirable, are neither practicable nor safe, the following plan, for the constitution of a national bank, is respectfully submitted to the consideration of the House.

1. The capital stock of the bank shall not exceed ten millions of dollars, divided into twenty-five thousand shares, each share being four hundred dollars; to raise which sum, subscriptions shall be opened on the first Monday of April next, and shall continue open until the whole shall be subscribed. Bodies politic as well as individuals may subscribe.

2. The amount of each share shall be payable, one fourth in gold and silver coin, and three fourths in that part of the public debt which, according to the loan proposed by the act making provision for

the debt of the United States, shall bear an accruing interest, at the time of payment, of six per centum per annum.

3. The respective sums subscribed shall be payable in four equal parts, as well specie as debt, in succession, and at the distance of six calendar months from each other; the first payment to be made at the time of subscription. If there shall be a failure in any subsequent payment, the party failing shall lose the benefit of any dividend which may have accrued prior to the time for making such payment, and during the delay of the same.

4. The subscribers to the bank, and their successors, shall be incorporated, and shall so continue until the final redemption of that part of its stock which shall consist of the public debt.

5. The capacity of the corporation to hold real and personal estate shall be limited to fifteen millions of dollars, including the amount of its capital, or original stock. The lands and tenements which it shall be permitted to hold shall be only such as shall be requisite for the immediate accommodation of the institution, and such as shall have been bona fide mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted in the usual course of its dealings, or purchased at sales upon judgments which shall have been obtained for such debts.

6. The totality of the debts of the company, whether by bond, bill, or other contract (credits for deposits excepted), shall never exceed the amount of its capital stock. In case of excess, the directors,

under whose administration it shall happen, shall be liable for it in their private or separate capacities. Those who may have dissented may excuse themselves from this responsibility, by immediately giving notice of the fact, and their dissent, to the President of the United States, and to the stockholders, at a general meeting, to be called by the president of the bank, at their request.

7. The company may sell or devise its lands and tenements, or may sell the whole or any part of the public debt, whereof its stock shall consist; but shall *trade* in nothing except bills of exchange, gold and silver bullion, or in the sale of goods pledged for money lent; nor shall take more than at the rate of six per centum per annum, upon its loans or discounts.

8. No loan shall be made by the bank for the use, or on account, of the Government of the United States, or of either of them, to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

9. The stock of the bank shall be transferable, according to such rules as shall be instituted by the company in that behalf.

10. The affairs of the bank shall be under the management of twenty-five directors, one of whom shall be the president; and there shall be, on the first Monday of January, in each year, a choice of directors, by a plurality of suffrages of the stockholders, to serve for a year. The directors, at their first meeting after each election, shall choose one of their number as president.

11. The number of votes to which each stockholder shall be entitled shall be according to the number of shares he shall hold, in the proportions following—that is to say: For one share, and not more than two shares, one vote; for every two shares above two, and not exceeding ten, one vote; for every four shares above ten, and not exceeding thirty, one vote; for every six shares above thirty, and not exceeding sixty, one vote; for every eight shares above sixty, and not exceeding one hundred, one vote; and for every ten shares above one hundred, one vote; but no person, copartnership, or body politic shall be entitled to a greater number than thirty votes. And, after the first election, no share or shares shall confer a right of suffrage, which shall not have been holden three calendar months previous to the day of election. Stockholders actually resident within the United States, and none other, may vote in the elections by proxy.

12. Not more than three fourths of the directors in office, exclusive of the president, shall be eligible for the next succeeding year. But the director who shall be president at the time of an election, may always be re-elected.

13. None but a stockholder, being a citizen of the United States, shall be eligible as a director.

14. Any number of stockholders not less than sixty, who together shall be proprietors of two hundred shares, or upward, shall have power, at any time, to call a general meeting of the stockholders for purposes relative to the institution; giving at least six weeks' notice, in two public gazettes of the

place where the bank is kept, and specifying in such notice the object of the meeting.

15. In case of the death, resignation, absence from the United States, or removal of a director by the stockholders, his place may be filled by a new choice for the remainder of the year.

16. No director shall be entitled to any emolument, unless the same shall have been allowed by the stockholders at a general meeting. The stockholders shall make such compensation to the president, for his extraordinary attendance at the bank, as shall appear to them reasonable.

17. Not less than seven directors shall constitute a board for the transaction of business.

18. Every cashier or treasurer, before he enters on the duties of his office, shall be required to give bond, with two or more sureties, to the satisfaction of the directors, in a sum not less than twenty thousand dollars, with condition for his good behavior.

19. Half-yearly dividends shall be made of so much of the profits of the bank as shall appear to the directors advisable. And, once in every three years, the directors shall lay before the stockholders, at a general meeting, for their information, an exact and particular statement of the debts which shall have remained unpaid, after the expiration of the original credit, for a period of treble the term of that credit, and of the surplus of profit, if any, after deducting losses and dividends.

20. The bills and notes of the bank, originally made payable, or which shall have become payable,

on demand, in gold and silver coin, shall be receivable in all payments to the United States.

21. The officer at the head of the Treasury Department of the United States shall be furnished, from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital stock of the bank, and of the debts due to the same, of the moneys deposited therein, of the notes in circulation, and of the cash in hand; and shall have a right to inspect such general accounts in the books of the bank as shall relate to the said statements; provided that this shall not be construed to imply a right of inspecting the account of any private individual or individuals with the bank.

22. No similar institution shall be established by any future act of the United States, during the continuance of the one hereby proposed to be established.

23. It shall be lawful for the directors of the bank to establish offices wheresoever they shall think fit, within the United States, for the purposes of discount and deposit only, and upon the same terms, and in the same manner, as shall be practised at the bank, and to commit the management of the said offices, and the making of the said discounts, either to agents specially appointed by them, or to such persons as may be chosen by the stockholders residing at the place where any such office shall be, under such agreements, and subject to such regulations, as they shall deem proper, not being contrary to law, or to the constitution of the bank.

24. And lastly, the President of the United States

shall be authorized to cause a subscription to be made to the stock of the said company, on behalf of the United States, to an amount not exceeding two millions of dollars, to be paid out of the moneys which shall be borrowed by virtue of either of the acts, the one entitled "An act making provision for the debt of the United States," and the other entitled "An act making provision for the reduction of the public debt"; borrowing of the bank an equal sum, to be applied to the purposes for which the said moneys shall have been procured, reimbursable in ten years, by equal annual instalments, or at any time sooner, or in any greater proportions, that the Government may think fit.

The reasons for the several provisions contained in the foregoing plan have been so far anticipated, and will, for the most part, be so readily suggested by the nature of those provisions, that any comments which need further to be made will be both few and concise.

The combination of a portion of the public debt, in the formation of the capital, is the principal thing of which an explanation is requisite. The chief object of this is to enable the creation of a capital sufficiently large to be the basis of an extensive circulation, and an adequate security for it. As has been elsewhere remarked, the original plan of the Bank of North America contemplated a capital of ten millions of dollars, which is certainly not too broad a foundation for the extensive operations to which a national bank is destined. But to collect such a sum in this country, in gold and silver, into one

depository, may, without hesitation, be pronounced impracticable. Hence the necessity of an auxiliary, which the public debt at once presents.

This part of the fund will always be ready to come in aid of the specie; it will more and more command a ready sale; and can, therefore, expeditiously be turned into coin, if an exigency of the bank should at any time require it. This quality of prompt convertibility into coin renders it an equivalent for that necessary agent of bank circulation, and distinguishes it from a fund in land, of which the sale would generally be far less compendious, and at great disadvantage. The quarter-yearly receipts of interest will also be an actual addition to the specie fund, during the intervals between them and the half-yearly dividends of profits. The objection to combining land with specie, resulting from their not being generally in possession of the same persons, does not apply to the debt, which will always be found in considerable quantity among the moneyed and trading people.

The debt composing part of the capital, besides its collateral effect in enabling the bank to extend its operations, and consequently to enlarge its profits, will produce a direct annual revenue of six per centum for the government, which will enter into the half-yearly dividends received by the stockholders.

When the present price of the public debt is considered, and the effect which its conversion into bank stock, incorporated with a specie fund, would, in all probability, have to accelerate its rise to the

proper point, it will easily be discovered, that the operation presents, in its outset, a very considerable advantage to those who may become subscribers; and from the influence which that rise would have on the general mass of the debt, a proportional benefit to all the public creditors, and, in a sense which has been more than once adverted to, to the community at large.

There is an important fact, which exemplifies the fitness of the public debt for a bank fund, and which may serve to remove doubts in some minds on this point: it is this, that the Bank of England, in its first erection, rested wholly on that foundation. The subscribers to a loan to government of one million two hundred thousand pounds sterling were incorporated as a bank, of which the debt, created by the loan and the interest upon it, were the sole fund. The subsequent augmentations of its capital, which now amounts to between eleven and twelve millions of pounds sterling, have been of the same nature.

The confining of the right of the bank to contract debts to the amount of its capital is an important precaution, which is not to be found in the constitution of the Bank of North America, and which, while the fund consists wholly of coin, would be a restriction attended with inconveniences, but would be free from any, if the composition of it should be such as is now proposed. The restriction exists in the establishment of the Bank of England, and, as a source of security, is worthy of imitation. The consequence of exceeding the limit, there, is, that each stockholder is liable for the excess, in proportion to

his interest in the bank. When it is considered that the directors owe their appointments to the choice of the stockholders, a responsibility of this kind, on the part of the latter, does not appear unreasonable; but, on the other hand, it may be deemed a hardship upon those who may have dissented from the choice. And there are many among us, whom it might perhaps discourage from becoming concerned in the institution. These reasons have induced the placing of the responsibility upon the directors by whom the limit prescribed should be transgressed.

The interdiction of loans on account of the United States, or of any particular State, beyond the moderate sum specified, or of any foreign Power, will serve as a barrier to Executive encroachments, and to combinations inauspicious to the safety, or contrary to the policy, of the Union.

The limitation of the rate of interest is dictated by the consideration, that different rates prevail in different parts of the Union; and as the operations of the bank may extend through the whole, some rule seems to be necessary. There is room for a question, whether the limitation ought not rather to be to five than to six per cent., as proposed. It may, with safety, be taken for granted, that the former rate would yield an ample dividend, perhaps as much as the latter, by the extension which it would give to business. The natural effect of low interest is to increase trade and industry; because undertakings of every kind can be prosecuted with greater advantage. This is a truth generally admitted; but it is requisite to have analyzed the subject in all its re-

lations, to be able to form a just conception of the extent of that effect. Such an analysis cannot but satisfy an intelligent mind, that the difference of one per cent. in the rate at which money may be had, is often capable of making an essential change for the better in the situation of any country or place.

Every thing, therefore, which tends to lower the rate of interest, is peculiarly worthy of the cares of legislators. And though laws, which violently sink the legal rate of interest greatly below the market level, are not to be commended, because they are not calculated to answer their aim, yet, whatever has a tendency to effect a reduction, without violence to the natural course of things, ought to be attended to and pursued. Banks are among the means most proper to accomplish this end; and the moderation of the rate at which their discounts are made is a material ingredient towards it; with which their own interest, viewed on an enlarged and permanent scale, does not appear to clash.

But, as the most obvious ideas are apt to have greater force than those which depend on complex and remote combinations, there would be danger that the persons whose funds must constitute the stock of the bank would be diffident of the sufficiency of the profits to be expected, if the rate of loans and discounts were to be placed below the points to which they have been accustomed, and might, on this account, be indisposed to embarking in the plan. There is, it is true, one reflection, which, in regard to men, actively engaged in trade, ought to be a security against this danger; it is this:

That the accommodations which they might derive in the way of their business, at a low rate, would more than indemnify them for any difference in the dividend, supposing even that some diminution of it were to be the consequence. But, upon the whole, the hazard of contrary reasoning among the mass of moneyed men is a powerful argument against the experiment. The institutions of the kind already existing add to the difficulty of making it. Mature reflection and a large capital may, of themselves, lead to the desired end.

The last thing which requires any explanatory remark is, the authority proposed to be given to the President, to subscribe the amount of two millions of dollars on account of the public. The main design of this is, to enlarge the specie fund of the bank, and to enable it to give a more early extension to its operations. Though it is proposed to borrow with one hand what is lent with the other, yet the disbursement of what is borrowed will be progressive, and bank-notes may be thrown into circulation, instead of the gold and silver. Besides, there is to be an annual reimbursement of a part of the sum borrowed, which will finally operate as an actual investment of so much specie. In addition to the inducements to this measure, which result from the general interest of the government to enlarge the sphere of the utility of the bank, there is this more particular consideration, to wit: That, as far as the dividend on the stock shall exceed the interest paid on the loan, there is a positive profit.

The Secretary begs leave to conclude with this

general observation: That, if the Bank of North America shall come forward with any propositions which have for their objects, the engrafting upon that institution, the characteristics which shall appear to the Legislature necessary to the due extent and safety of a national bank, there are, in his judgment, weighty inducements to giving every reasonable facility to the measure. Not only the pretensions of that institution, from its original relation to the Government of the United States, and from the services it has rendered, are such as to claim a disposition favorable to it, if those who are interested in it are willing, on their part, to place it on a footing satisfactory to the government, and equal to the purposes of a bank of the United States, but its co-operation would materially accelerate the accomplishment of the great object, and the collision, which might otherwise arise, might, in a variety of ways, prove equally disagreeable and injurious. The incorporation or union here contemplated may be effected in different modes, under the auspices of an act of the United States, if it shall be desired by the Bank of North America, upon terms which shall appear expedient to the government.

All which is humbly submitted.

ALEXANDER HAMILTON,
*Secretary of the Treasury.*

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WASHINGTON TO HAMILTON

SIR: PHILADELPHIA, February 16, 1791.

An act to incorporate the subscribers to the Bank of the United States is now before me for consideration.

The constitutionality of it is objected to. It therefore becomes more particularly my duty to examine the ground on which the objection is built. As a means of investigation, I have called upon the Attorney-General of the United States, in whose line it seemed more particularly to be, for his official examination and opinion. His report is, that the Constitution does not warrant the act. I then applied to the Secretary of State for his sentiments on this subject. These coincide with the Attorney-General's; and the reasons for their opinions having been submitted in writing, I now require, in like manner, yours on the validity and propriety of the above-recited act; and, that you may know the points on which the Secretary of State and the Attorney-General dispute the constitutionality of the act, and that I may be fully possessed of the arguments *for* and *against* the measure, before I express any opinion of my own, I give you an opportunity of examining and answering the objections contained in the enclosed papers. I require the return of them when your own sentiments are handed to me (which I wish may be as soon as is convenient); and further, that no copies of them be taken, as it is for my own satisfaction they have been called for.

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HAMILTON TO WASHINGTON

Monday.

The Secretary of the Treasury presents his respects to the President of the United States, to request his indulgence for not having yet furnished his reasons on a certain point. He has been ever since sedulously engaged in it, but finds it will be impossible to complete it before Tuesday evening or

Wednesday morning early. He is anxious to give the point a thorough examination.

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HAMILTON TO WASHINGTON

The Secretary of the Treasury presents his respects to the President, and sends him the opinion required, which occupied him the greatest part of last night.

The bill for extending the time of opening subscriptions passed yesterday unanimously to an order for engrossing.

## *Opinion as to the Constitutionality of the Bank of the United States*

February 23, 1791.

The Secretary of the Treasury having perused with attention the papers containing the opinions of the Secretary of State and the Attorney-General, concerning the constitutionality of the bill for establishing a national bank, proceeds, according to the order of the President, to submit the reasons which have induced him to entertain a different opinion.

It will naturally have been anticipated, that in performing this task he would feel uncommon solicitude. Personal considerations alone, arising from the reflection that the measure originated with him, would be sufficient to produce it. The sense which he has manifested of the great importance of such an institution to the successful administration of the department under his particular care, and an expectation of serious ill consequences to result from

a failure of the measure, do not permit him to be without anxiety on public accounts. But the chief solicitude arises from a firm persuasion, that principles of construction like those espoused by the Secretary of State and the Attorney-General would be fatal to the just and indispensable authority of the United States.

In entering upon the argument, it ought to be premised that the objections of the Secretary of State and the Attorney-General are founded on a general denial of the authority of the United States to erect corporations. The latter, indeed, expressly admits, that if there be anything in the bill which is not warranted by the Constitution, it is the clause of incorporation.

Now it appears to the Secretary of the Treasury that this *general principle* is *inherent* in the very *definition* of government, and *essential* to every step of the progress to be made by that of the United States, namely: That every power vested in a government is in its nature *sovereign*, and includes, by *force* of the *term*, a right to employ all the *means* requisite and fairly applicable to the attainment of the *ends* of such power, and which are not precluded by restrictions and exceptions specified in the Constitution, or not immoral, or not contrary to the *essential ends* of political society.[1]

This principle, in its application to government in general, would be admitted as an axiom; and it will be incumbent upon those who may incline to deny

[1] This is the beginning of the argument in favor of the implied powers of the Constitution which Hamilton was the first to evoke.

it, to prove a distinction, and to show that a rule which, in the general system of things, is essential to the preservation of the social order, is inapplicable to the United States.

The circumstance that the powers of sovereignty are in this country divided between the National and State governments, does not afford the distinction required. It does not follow from this, that each of the portion of *powers* delegated to the one or to the other, is not sovereign with *regard to its proper objects*. It will only *follow* from it, that each has sovereign power as to *certain things*, and not as to *other things*. To deny that the Government of the United States has sovereign power, as to its declared purposes and trusts, because its power does not extend to all cases, would be equally to deny that the State governments have sovereign power in any case, because their power does not extend to every case. The tenth section of the first article of the Constitution exhibits a long list of very important things which they may not do. And thus the United States would furnish the singular spectacle of a *political society* without *sovereignty*, or of a *people governed*, without *government*.

If it would be necessary to bring proof to a proposition so clear, as that which affirms that the powers of the Federal Government, as to *its objects*, were sovereign, there is a clause of its Constitution which would be decisive. It is that which declares that the Constitution, and the laws of the United States made in pursuance of it, and all treaties made, or which shall be made, under their authority, shall

be the *supreme law of the land.* The power which can create the *supreme law of the land* in *any case*, is doubtless *sovereign* as to such case.

This general and indisputable principle puts at once an end to the *abstract* question, whether the United States have power to erect a *corporation;* that is to say, to give a *legal* or *artificial capacity* to one or more persons, distinct from the *natural.* For it is unquestionably incident to *sovereign power* to erect corporations, and consequently to *that* of the United States, in *relation* to the *objects* intrusted to the management of the government. The difference is this: where the authority of the government is general, it can create corporations in *all cases;* where it is confined to certain branches of legislation, it can create corporations *only* in those cases.

Here, then, as far as concerns the reasonings of the Secretary of State and the Attorney-General, the affirmative of the constitutionality of the bill might be permitted to rest. It will occur to the President, that the principle here advanced has been untouched by either of them.

For a more complete elucidation of the point, nevertheless, the arguments which they had used against the power of the government to erect corporations, however foreign they are to the great and fundamental rule which has been stated, shall be particularly examined. And after showing that they do not tend to impair its force, it shall also be shown that the power of incorporation, incident to the government in certain cases, does fairly extend to the particular case which is the object of the bill.

The first of these arguments is, that the foundation of the Constitution is laid on this ground: "That all powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States, or to the people." Whence it is meant to be inferred, that Congress can in no case exercise any power not included in those enumerated in the Constitution. And it is affirmed, that the power of erecting a corporation is not included in any of the enumerated powers.

The main proposition here laid down, in its true signification, is not to be questioned. It is nothing more than a consequence of this republican maxim, that all government is a delegation of power. But how much is delegated in each case is a question of fact, to be made out by fair reasoning and construction, upon the particular provisions of the Constitution, taking as guides the general principles and general ends of governments.

It is not denied that there are *implied*, as well as *express powers*, and that the *former* are as effectually delegated as the *latter*. And for the sake of accuracy it shall be mentioned that there is another class of powers, which may be properly denominated *resulting powers*. It will not be doubted that if the United States should make a conquest of any of the territories of its neighbors, they would possess sovereign jurisdiction over the conquered territory. This would be rather a result from the whole mass of the powers of the government, and from the nature of political society, than a consequence of either of the powers specially enumerated.

But be this as it may, it furnishes a striking illustration of the general doctrine contended for; it shows an extensive case, in which a power of erecting corporations is either implied in, or would result from, some or all of the powers vested in the National Government. The jurisdiction acquired over such conquered country would certainly be competent to any species of legislation.

To return:—It is conceded that *implied powers* are to be considered as delegated equally with *express ones*. Then it follows, that as a power of erecting a corporation may as well be *implied* as any other thing, it may as well be employed as an *instrument* or *means* of carrying into execution any of the specified powers, as any other *instrument* or *means* whatever. The only question must be in this, as in every other case, whether the means to be employed, or, in this instance, the corporation to be erected, has a natural relation to any of the acknowledged objects or lawful ends of the government. Thus a corporation may not be erected by Congress for superintending the police of the city of Philadelphia, because they are not authorized to *regulate* the *police* of that city. But one may be erected in relation to the collection of taxes, or to the trade with foreign countries, or to the trade between the States, or with the Indian tribes; because it is the province of the Federal Government to *regulate* those objects, and because it is incident to a general *sovereign* or *legislative* power to *regulate* a thing, to employ all the means which relate to its regulation to the best and greatest advantage.

A strange fallacy seems to have crept into the manner of thinking and reasoning upon this subject. Imagination appears to have been unusually busy concerning it. An incorporation seems to have been regarded as some *great independent substantive thing;* as a political end of peculiar magnitude and moment; whereas it is truly to be considered as a *quality, capacity,* or *means* to an end. Thus a mercantile company is formed, with a certain capital, for the purpose of carrying on a particular branch of business. Here the business to be prosecuted is the end. The association in order to form the requisite capital, is the primary mean. Suppose that an incorporation were added to this, it would only be to add a new *quality* to that association, to give it an artificial capacity, by which it would be enabled to prosecute the business with more safety and convenience.

That the importance of the power of incorporation has been exaggerated, leading to erroneous conclusions, will further appear from tracing it to its origin. The Roman law is the source of it, according to which a *voluntary* association of individuals, at *any time,* or for any purpose, was capable of producing it. In England, whence our notions of it are immediately borrowed, it forms part of the executive authority, and the exercise of it has been often *delegated* by that authority. Whence, therefore, the ground of the supposition that it lies beyond the reach of all those very important portions of sovereign power, legislative as well as executive, which belong to the Government of the United States?

Through this mode of reasoning respecting the

right of employing all the means requisite to the execution of the specified powers of the government, it is to be objected, that none but necessary and proper means are to be employed; and the Secretary of State maintains, that no means are to be considered *necessary* but those without which the grant of the power would be *nugatory*. Nay, so far does he go in his restrictive interpretation of the *word*, as even to make the case of *necessity* which shall warrant the constitutional exercise of the power to depend on *casual* and *temporary* circumstances; an idea which alone refutes the construction. The *expediency* of exercising a particular power, at a particular time, must, indeed, depend on circumstances; but the constitutional right of exercising it must be uniform and invariable, the same to-day as to-morrow.

All the arguments, therefore, against the constitutionality of the bill derived from the accidental existence of certain State banks—institutions which happen to exist to-day, and, for aught that concerns the government of the United States, may disappear to-morrow—must not only be rejected as fallacious, but must be viewed as demonstrative that there is a *radical* source of error in the reasoning.

It is essential to the being of the national government, that so erroneous a conception of the meaning of the word *necessary* should be exploded.

It is certain, that neither the grammatical nor popular sense of the term requires that construction. According to both, *necessary* often means no more than *needful*, *requisite*, *incidental*, *useful*, or *conducive*

*to*. It is a common mode of expression to say, that it is *necessary* for a government or a person to do this or that thing, when nothing more is intended or understood, than that the interests of the government or person require, or will be promoted by, the doing of this or that thing. The imagination can be at no loss for exemplifications of the use of the word in this sense. And it is the true one in which it is to be understood as used in the Constitution. The whole turn of the clause containing it indicates, that it was the intent of the Convention, by that clause, to give a liberal latitude to the exercise of the specified powers. The expressions have peculiar comprehensiveness. They are, "to make all *laws* necessary and proper for *carrying into execution* the *foregoing powers*, and *all other powers* vested by the Constitution in the *Government* of the United States, or in any *department* or *officer* thereof."

To understand the word as the Secretary of State does, would be to depart from its obvious and popular sense, and to give it a restrictive operation, an idea never before entertained. It would be to give it the same force as if the word *absolutely* or *indispensably* had been prefixed to it.

Such a construction would beget endless uncertainty and embarrassment. The cases must be palpable and extreme, in which it could be pronounced, with certainty, that a measure was absolutely necessary, or one, without which the exercise of a given power would be nugatory. There are few measures of any government which would stand so severe a test. To insist upon it, would be to make the

criterion of the exercise of any implied power, a *case of extreme necessity;* which is rather a rule to justify the overleaping of the bounds of constitutional authority, than to govern the ordinary exercise of it.

It may be truly said of every government, as well as of that of the United States, that it has only a right to pass such laws as are necessary and proper to accomplish the objects intrusted to it. For no government has a right to do *merely what it pleases.* Hence, by a process of reasoning similar to that of the Secretary of State, it might be proved that neither of the State governments has the right to incorporate a bank. It might be shown that all the public business of the State could be performed without a bank, and inferring thence that it was unnecessary, it might be argued that it could not be done, because it is against the rule which has been just mentioned. A like mode of reasoning would prove that there was no power to incorporate the inhabitants of a town, with a view to a more perfect police. For it is certain that an incorporation may be dispensed with, though it is better to have one. It is to be remembered that there is no *express* power in any State constitution to erect corporations.

The *degree* in which a measure is necessary can never be a *test* of the legal right to adopt it; that must be a matter of opinion, and can only be a *test* of expediency. The *relation* between the *measure* and the *end;* between the *nature* of the *means* employed towards the execution of a power, and the object of that power, must be the criterion of constitutionality, not the more or less of *necessity* or *utility.*

The practice of the government is against the rule of construction advocated by the Secretary of State. Of this, the act concerning light-houses, beacons, buoys, and public piers is a decisive example. This, doubtless, must be referred to the powers of regulating trade, and is fairly relative to it. But it cannot be affirmed that the exercise of that power in this instance was strictly *necessary*, or that the power itself would be *nugatory*, without that of regulating establishments of this nature.

This restrictive interpretation of the word *necessary* is also contrary to this sound maxim of construction; namely, that the powers contained in a constitution of government, especially those which concern the general administration of the affairs of a country, its finances, trade, defence, etc., ought to be construed liberally in advancement of the public good. This rule does not depend on the particular form of a government, or on the particular demarcation of the boundaries of its powers, but on the nature and objects of government itself. The means by which national exigencies are to be provided for, national inconveniences obviated, national prosperity promoted, are of such infinite variety, extent, and complexity, that there must of necessity be great latitude of discretion in the selection and application of those means. Hence, consequently, the necessity and propriety of exercising the authorities intrusted to a government on principles of liberal construction.

The Attorney-General admits the *rule*, but makes a distinction between a State and the Federal Constitution. The latter, he thinks, ought to be

construed with greater strictness, because there is more danger of error in defining *partial* than *general* powers. But the reason of the *rule* forbids such a distinction. This reason is, the variety and extent of public exigencies, a far greater proportion of which, and of a far more critical kind, are objects of *National* than of *State* administration. The greater danger of error, as far as it is supposable, may be a prudential reason for caution in practice, but it cannot be a rule of restrictive interpretation.

In regard to the clause of the Constitution immediately under consideration, it is admitted by the Attorney-General, that no *restrictive* effect can be ascribed to it. He defines the word *necessary* thus: "To be *necessary* is to be *incidental*, and may be denominated the natural means of executing a power."

But while on the one hand the construction of the Secretary of State is deemed inadmissible, it will not be contended, on the other, that the clause in question gives any *new* or *independent* power. But it gives an explicit sanction to the doctrine of *implied powers*, and is equivalent to an admission of the proposition that the government, as to its *specified powers* and *objects*, has plenary and sovereign authority, in some cases paramount to the States; in others, co-ordinate with it. For such is the plain import of the declaration, that it may pass all *laws* necessary and proper to carry into execution those powers.

It is no valid objection to the doctrine to say, that it is calculated to extend the power of the

General Government throughout the entire sphere of State legislation. The same thing has been said, and may be said, with regard to every exercise of power by *implication* or *construction.*

The moment the literal meaning is departed from, there is a chance of error and abuse. And yet an adherence to the letter of its powers would at once arrest the motions of government. It is not only agreed, on all hands, that the exercise of constructive powers is indispensable, but every act which has been passed is more or less an exemplification of it. One has been already mentioned—that relating to light-houses, etc.; that which declares the power of the President to remove officers at pleasure, acknowledges the same truth in another and a signal instance.

The truth is, that difficulties on this point are inherent in the nature of the Federal Constitution; they result inevitably from a division of the legislative power. The consequence of this division is, that there will be cases clearly within the power of the National Government; others, clearly without its powers; and a third class, which will leave room for controversy and difference of opinion, and concerning which a reasonable latitude of judgment must be allowed.

But the doctrine which is contended for is not chargeable with the consequences imputed to it. It does not affirm that the National Government is sovereign in all respects, but that it is sovereign to a certain extent—that is, to the extent of the objects of its specified powers.

It leaves, therefore, a criterion of what is constitutional, and of what is not so. This criterion is the *end*, to which the measure relates as a *means*. If the *end* be clearly comprehended within any of the specified powers, and if the measure have an obvious relation to that *end*, and is not forbidden by any particular provision of the Constitution, it may safely be deemed to come within the compass of the national authority. There is also this further criterion, which may materially assist the decision: Does the proposed measure abridge a pre-existing right of any State or of any individual? If it does not, there is a strong presumption in favor of its constitutionality, and slighter relations to any declared object of the Constitution may be permitted to turn the scale.

The general objections, which are to be inferred from the reasonings of the Secretary of State and the Attorney-General, to the doctrines which have been advanced, have been stated, and it is hoped satisfactorily answered. Those of a more particular nature shall now be examined.

The Secretary of State introduces his opinion with an observation, that the proposed incorporation undertakes to create certain capacities, properties, or attributes, which are against the laws of *alienage*, *descents*, *escheat*, and *forfeiture*, *distribution* and *monopoly*, and to confer a power to make laws paramount to those of the States. And nothing, says he, in another place, but *necessity*, *invincible* by *other means*, can justify such a *prostration* of laws, which constitute the pillars of our whole system of juris-

prudence, and are the foundation laws of the State governments. If these are truly the foundation laws of the several States, then have most of them subverted their own foundations. For there is scarcely one of them which has not, since the establishment of its particular constitution, made material alterations in some of those branches of its jurisprudence, especially the law of descents. But it is not conceived how any thing can be called the fundamental law of a State government, which is not established in its constitution, unalterable by the ordinary Legislature. And with regard to the question of necessity, it has been shown that this can only constitute a question of expediency, not of right.

To erect a corporation, is to substitute a *legal* or *artificial* to a *natural* person, and where a number are concerned, to give them *individuality*. To that *legal* or *artificial* person, once created, the common law of every State, of itself, annexes all those incidents and attributes which are represented as a prostration of the main pillars of their jurisprudence.

It is certainly not accurate to say that the erection of a corporation is *against* those different *heads* of the State laws; because it is rather to create a kind of person or entity, to which they are inapplicable, and to which the general rule of those laws assign a different regimen. The laws of alienage cannot apply to an artificial person, because it can have no country; those of descent cannot apply to it, because it can have no heirs; those of escheat are foreign from it, for the same reason; those of

forfeiture, because it cannot commit a crime; those of distribution, because, though it may be dissolved, it cannot die.

As truly might it be said, that the exercise of the power of prescribing the rule by which foreigners shall be naturalized is against the law of alienage, while it is, in fact, only to put them in a situation to cease to be the subject of that law. To do a thing which is against a law, is to do something which it forbids, or which is a violation of it.

But if it were even to be admitted that the erection of a corporation is a direct alteration of the stated laws, in the enumerated particulars, it would do nothing toward proving that the measure was unconstitutional. If the Government of the United States can do no act which amounts to an alteration of a State law, all its powers are nugatory; for almost every new law is an alteration, in some way or another, of an *old law*, either *common* or *statute*.

There are laws concerning bankruptcy in some States. Some States have laws regulating the values of foreign coins. Congress are empowered to establish uniform laws concerning bankruptcy throughout the United States, and to regulate the values of foreign coins. The exercise of either of these powers by Congress necessarily involves an alteration of the laws of those States.

Again. Every person, by the common law of each State, may export his property to foreign countries, at pleasure. But Congress in pursuance of the power of regulating trade, may *prohibit* the exportation of commodities; in doing which, they would

alter the common law of each State, in abridgment of individual right.

It can therefore never be good reasoning to say this or that act is unconstitutional, because it alters this or that law of a State. It must be shown that the act which makes the alteration is unconstitutional on other accounts; not *because* it makes the alteration.

There are two points in the suggestions of the Secretary of State, which have been noted, that are peculiarly incorrect. One is, that the proposed incorporation is against the laws of monopoly, because it stipulates an exclusive right of banking under the national authority; the other, that it gives power to the institution to make laws paramount to those of the States.

But, with regard to the first point: The bill neither prohibits any State from erecting as many banks as they please, nor any number of individuals from associating to carry on the business, and consequently is free from the charge of establishing a monopoly; for monopoly implies a *legal impediment* to the carrying on of the trade by others than those to whom it is granted.

And with regard to the second point, there is still less foundation. The by-laws of such an institution as a bank can operate only on its own members, can only concern the disposition of its own property, and must essentially resemble the rules of a private mercantile partnership. They are expressly not to be contrary to law; and law must here mean the law of a State, as well as of the United States. There

never can be a doubt, that a law of a corporation, if contrary to a law of a State, must be overruled as void, unless the law of the State is contrary to that of the United States, and then the question will not be between the law of the State and that of the corporation, but between the law of the State and that of the United States.

Another argument made use of by the Secretary of State is, the rejection of a proposition by the Convention to empower Congress to make corporations, either generally, or for some special purpose.

What was the precise nature or extent of this proposition, or what the reasons for refusing it, is not ascertained by any authentic document, or even by accurate recollection. As far as any such document exists, it specifies only canals. If this was the amount of it, it would, at most, only prove that it was thought inexpedient to give a power to incorporate for the purpose of opening canals, for which purpose a special power would have been necessary, except with regard to the western territory, there being nothing in any part of the Constitution respecting the regulation of canals. It must be confessed, however, that very different accounts are given of the import of the proposition, and of the motives for rejecting it. Some affirm that it was confined to the opening of canals and obstructions in rivers; others, that it embraced banks; and others, that it extended to the power of incorporating generally. Some, again, allege that it was disagreed to because it was thought improper to vest in Congress a power of erecting corporations. Others,

because it was thought unnecessary to *specify* the power, and inexpedient to furnish an additional topic of objection to the Constitution. In this state of the matter, no inference whatever can be drawn from it.

But whatever may have been the nature of the proposition, or the reasons for rejecting it, it includes nothing in respect to the real merits of the question. The Secretary of State will not deny that, whatever may have been the intention of the framers of a constitution or of a law, that intention is to be sought for in the instrument itself, according to the usual and established rules of construction. Nothing is more common than for laws to *express* and *effect* more or less than was intended. If, then, a power to erect a corporation in any case be deducible, by fair inference, from the whole or any part of the numerous provisions of the Constitution of the United States, arguments drawn from extrinsic circumstances, regarding the intention of the Convention, must be rejected.

Most of the arguments of the Secretary of State, which have not been considered in the foregoing remarks, are of a nature rather to apply to the expediency than to the constitutionality of the bill. They will, however, be noticed in the discussions which will be necessary in reference to the particular heads of the powers of the government which are involved in the question.

Those of the Attorney-General will now properly come under view.

His first objection is, that the power of incorporation is not *expressly* given to Congress. This shall

be conceded, but in *this sense only*, that it is not declared in *express terms* that Congress may erect a corporation. But this cannot mean, that there are not certain *express powers* which *necessarily* include it. For instance, Congress have express power to exercise exclusive legislation, in all cases whatsoever, over such *district* (not exceeding ten miles square) as may, by cession of particular States and the acceptance of Congress, become the seat of the Government of the United States; and to exercise *like authority* over all places purchased, by consent of the Legislature of the State in which the same shall be, for the erection of forts, arsenals, dockyards, and other needful buildings. Here, then, is express power to exercise *exclusive legislation*, in *all cases whatsoever*, over *certain places*—that is, to do, in respect to those places, all that any government whatsoever may do. For language does not afford a more complete designation of sovereign power than in those comprehensive terms. It is, in other words, a power to pass all laws whatsoever, and, consequently, to pass laws for erecting corporations, as well as for any other purpose which is the proper object of law in a free government.

Surely it can never be believed that Congress, with *exclusive powers of legislation in all cases* whatsoever, cannot erect a corporation within the district which shall become the seat of government, for the better regulation of its police. And yet there is an unqualified denial of the power to erect corporations in every case, on the part both of the Secretary of State and of the Attorney-General; the former, in-

deed, speaks of that power in these emphatical terms: That it is a *right remaining exclusively with the States.*

As far, then, as there is an *express power* to do any *particular act of legislation*, there is an *express one* to erect a corporation in the case above described. But, accurately speaking, no *particular power* is more than *that implied in a general one.* Thus the power to lay a duty on a *gallon of rum* is only a particular *implied* in the general power to lay and collect taxes, duties, imposts, and excises. This serves to explain in what sense it may be said that Congress have not an express power to make corporations.

This may not be an improper place to take notice of an argument which was used in debate in the House of Representatives. It was there argued, that if the Constitution intended to confer so important a power as that of erecting corporations, it would have been expressly mentioned. But the case which has been noticed is clearly one in which such a power exists, and yet without any specification or express grant of it, further than as every *particular implied* in a general power can be said to be so granted.

But the argument itself is founded upon an exaggerated and erroneous conception of the nature of the power. It has been shown that it is not of so transcendent a kind as the reasoning supposes, and that, viewed in a just light, it is a means, which ought to have been left to *implication*, rather than an *end*, which ought to have been expressly granted.

Having observed that the power of erecting corporations is not expressly granted to Congress, the Attorney-General proceeds thus:

> If it can be exercised by them, it must be—
> 1. Because the nature of the Federal Government implies it.
> 2. Because it is involved in some of the specified powers of legislation.
> 3. Because it is necessary and proper to carry into execution some of the specified powers.

To be implied in the *nature* of the *Federal Government*, says he, would beget a doctrine so indefinite as to grasp at every power.

This proposition, it ought to be remarked, is not precisely, or even substantially, that which has been relied upon. The proposition relied upon is, that the *specified powers of Congress* are in their nature *sovereign;* that it is incident to sovereign power to erect corporations, and that therefore Congress have a right, within the *sphere* and in *relation* to the *objects of their power*, to *erect corporations*. It shall, however, be supposed that the Attorney-General would consider the two propositions in the same light, and that the objection made to the one would be made to the other.

To this objection an answer has been already given. It is this: that the doctrine is stated with this *express qualification*, that the right to erect corporations does *only* extend to *cases* and *objects* within the *sphere* of the *specified powers* of the *government*. A *general* legislative authority implies a

power to erect corporations in *all cases*. A *particular* legislative power implies authority to erect corporations in relation to cases arising under *that power only*. Hence the affirming that, as *incident* to sovereign power, Congress may erect a corporation in relation to the *collection* of their taxes, is no more than to affirm that they may do whatever else they please; than the saying that they have a power to regulate trade, would be to affirm that they have a power to regulate religion; or than the maintaining that they have sovereign power as to taxation, would be to maintain that they have sovereign power as to every thing else.

The Attorney-General undertakes in the next place to show, that the power of erecting corporations is not involved in any of the specified powers of legislation confided to the National Government. In order to do this, he has attempted an enumeration of the particulars, which he supposes to be comprehended under the several heads of the *powers* to lay and collect taxes, etc.; to borrow money on the credit of the United States; to regulate commerce with sovereign nations, between the States, and with the Indian tribes; to dispose of and make all needful rules and regulations respecting the territory or other property belonging to the United States. The design of which enumeration is to show *what* is included under those different heads of power, and negatively, that the power of erecting corporations is not included.

The truth of this inference or conclusion must depend on the accuracy of the enumeration. If it can

be shown that the enumeration is *defective*, the influence is destroyed. To do this will be attended with no difficulty.

The heads of the power to lay and collect taxes are stated to be:

1. To stipulate the sum to be lent.
2. An interest or no interest to be paid.
3. The time and manner of repaying, unless the loan be placed on an irredeemable fund.

This enumeration is liable to a variety of objections. It omits, in the first place, the *pledging* or *mortgaging* of a fund for the security of the money lent, a usual and in most cases an essential ingredient.

The idea of a stipulation of an *interest* or no *interest* is too confined. It should rather have been said, to stipulate the *consideration* of the loan. Individuals often borrow on considerations other than the payment of interest; so may governments, and so they often find it necessary to do. Every one recollects the lottery tickets and other douceurs often given in Great Britain as collateral inducements to the lending of money to the government. There are also frequently collateral conditions, which the enumeration does not contemplate. Every contract which has been made for moneys borrowed in Holland, induces stipulations that the sum due shall be *free* from *taxes*, and from sequestration in time of war, and mortgages all the land and property of the United States for the reimbursements.

It is also known that a lottery is a common expedient for borrowing money, which certainly does not fall under either of the enumerated heads.

The heads of the power to regulate commerce with foreign nations are stated to be:

1. To prohibit them or their commodities from our ports.

2. To impose duties on them, where none existed before, or to increase existing duties on them.

3. To subject them to any species of custom-house regulation.

4. To grant them any exemptions or privileges which policy may suggest.

This enumeration is far more exceptionable than either of the former. It omits *every thing* that relates to the *citizens' vessels*, or *commodities* of the United States.

The following palpable omissions occur at once:

1. Of the power to prohibit the exportation of commodities, which not only exists at all times, but which in time of war it would be necessary to exercise, particularly with relation to naval and warlike stores.

2. Of the power to prescribe rules concerning the characteristics and privileges of an American bottom; how she shall be navigated, or whether by citizens or foreigners, or by a proportion of each.

3. Of the power of regulating the manner of contracting with seamen, the police of ships on their voyages, etc., of which the act for the government and regulation of seamen, in the merchants' service, is a specimen.

That the three preceding articles are omissions will not be doubted; there is a long list of items in addition, which admit of little if any question, of which a few samples shall be given.

1. The granting of bounties to certain kinds of vessels, and certain species of merchandise; of this nature is the allowance on dried and pickled fish and salted provisions.

2. The prescribing of rules concerning the *inspection* of commodities to be exported. Though the States individually are competent to this regulation, yet there is no reason, in point of authority at least, why a general system might not be adopted by the United States.

3. The regulation of policies of insurance, of salvage upon goods found at sea, and the disposition of such goods.

4. The regulation of pilots.

5. The regulation of bills of exchange drawn by a merchant of *one State* upon a merchant of *another State*. This last rather belongs to the regulation of trade between the States, but is equally omitted in the specification under that head.

The last enumeration relates to the power to dispose of and make all *needful rules* and *regulations* respecting the territory or *other property* belonging to the United States.

The heads of this power are said to be:

1. To exert an ownership over the territory of the United States, which may be properly called the property of the United States, as in the western territory, and to *institute a government therein*, or

2. To exert an ownership over the other property of the United States.

The idea of exerting an ownership over the territory or other property of the United States is par-

ticularly indefinite and vague. It does not at all satisfy the conception of what must have been intended by a power to make all *needful rules* and *regulations*, nor would there have been any use for a special clause, which authorized nothing more. For the right of exerting an ownership is implied in the very definition of property. It is admitted, that in regard to the western territory something more is intended; even the institution of a government—that is, the creation of a body politic, or corporation of the highest nature; one which, in its maturity, will be able itself to create other corporations. Why, then, does not the same clause authorize the erection of a corporation in respect to the regulation or disposal of any other of the property of the United States?

This idea will be enlarged upon in another place.

Hence it appears, that the enumerations which have been attempted by the Attorney-General, are so imperfect as to authorize no conclusion whatever; they therefore have no tendency to disprove that each and every of the powers to which they relate includes that of erecting corporations, which they certainly do, as the subsequent illustrations will more and more evince.

It is presumed to have been satisfactorily shown in the course of the preceding observations:

1. That the power of the government, as to the objects intrusted to its management, is, in its nature, sovereign.

2. That the right of erecting corporations is one inherent in, and inseparable from, the idea of sovereign power.

3. That the position, that the government of the United States can exercise no power but such as is delegated to it by its Constitution, does not militate against this principle.

4. That the word *necessary*, in the general clause, can have no *restrictive* operation derogating from the force of this principle; indeed, that the degree in which a measure is or is not *necessary*, cannot be a *test* of *constitutional right*, but of *expediency only*.

5. That the power to erect corporations is not to be considered as an *independent* or *substantive* power, but as an *incidental* and *auxiliary* one, and was therefore more properly left to implication, than expressly granted.

6. That the principle in question does not extend the power of the government beyond the prescribed limits, because it only affirms a power to *incorporate* for purposes *within the sphere* of the *specified powers*.

And lastly, that the right to exercise such a power in certain cases is unequivocally granted in the most *positive* and *comprehensive* terms. To all which it only remains to be added, that such a power has actually been exercised in two very eminent instances: namely, in the erection of two governments; one northwest of the river Ohio, and the other southwest—the last independent of any antecedent compact. And these result in a full and complete demonstration, that the Secretary of State and the Attorney-General are mistaken when they deny generally the power of the National Government to erect corporations.

It shall now be endeavored to be shown that there

is a power to erect one of the kind proposed by the bill. This will be done by tracing a natural and obvious relation between the institution of a bank and the objects of several of the enumerated powers of the government; and by showing that, *politically* speaking, it is necessary to the effectual execution of one or more of those powers.

In the course of this investigation, various instances will be stated, by way of illustration of a right to erect corporations under those powers.

Some preliminary observations may be proper.

The proposed bank is to consist of an association of persons, for the purpose of creating a joint capital, to be employed chiefly and essentially in loans. So far the object is not only lawful, but it is the mere exercise of a right which the law allows to every individual. The Bank of New York, which is not incorporated, is an example of such an association. The bill proposes, in addition, that the government shall become a joint proprietor in this undertaking, and that it shall permit the bills of the company, payable on demand, to be receivable in its revenues; and stipulates that it shall not grant privileges, similar to those which are to be allowed to this company, to any others. All this is incontrovertibly within the compass of the discretion of the government. The only question is, whether it has a right to incorporate this company, in order to enable it the more effectually to accomplish ends which are in themselves lawful.

To establish such a right, it remains to show the relation of such an institution to one or more of the

specified powers of the government. Accordingly it is affirmed that it has a relation, more or less direct, to the power of collecting taxes, to that of borrowing money, to that of regulating trade between the States, and to those of raising and maintaining fleets and armies. To the two former the relation may be said to be immediate; and in the last place it will be argued, that it is clearly within the provision which authorizes the making of all *needful rules and regulations* concerning the *property* of the United States, as the same has been practised upon by the government.

A bank relates to the collection of taxes in two ways—*indirectly*, by increasing the quantity of circulating medium and quickening circulation, which facilitates the means of paying directly, by creating a *convenient species* of medium in which they are to be paid.

To designate or appoint the *money* or *thing* in which taxes are to be paid, is not only a proper but a *necessary exercise* of the power of collecting them. Accordingly Congress, in the law concerning the collection of the duties on imposts and tonnage, have provided that they shall be paid in gold and silver. But while it was an indispensable part of the work to say in what they should be paid, the choice of the specific thing was mere matter of discretion. The payment might have been required in the commodities themselves. Taxes in kind, however ill-judged, are not without precedents, even in the United States; or it might have been in the paper money of the several States, or in the bills of

the banks of North America, New York, and Massachusetts, all or either of them; or it might have been in bills issued under the authority of the United States.

No part of this can, it is presumed, be disputed. The appointment, then, of the *money* or *thing* in which the taxes are to be paid, is an incident to the power of collection. And among the expedients which may be adopted, is that of bills issued under the authority of the United States.

Now the manner of issuing these bills is again matter of discretion. The government might doubtless proceed in the following manner:

It might provide that they should be issued under the direction of certain officers, payable on demand; and, in order to support their credit, and give them a ready circulation, it might, besides giving them a currency in its taxes, set apart, out of any moneys in its treasury, a given sum, and appropriate it, under the direction of those officers, as a fund for answering the bills, as presented for payment.

The constitutionality of all this would not admit of a question, and yet it would amount to the institution of a bank, with a view to the more convenient collection of taxes. For the simplest and most precise idea of a bank is, a deposit of coin, or other property, as a fund for *circulating* a *credit* upon it, which is to answer the purpose of money. That such an arrangement would be equivalent to the establishment of a bank, would become obvious, if the place where the fund to be set apart was kept should be made a receptacle of the moneys of all

other persons who should incline to deposit them there for safe-keeping; and would become still more so, if the officers charged with the direction of the fund were authorized to make discounts at the usual rate of interest, upon good security. To deny the power of the government to add these ingredients to the plan, would be to refine away all government.

A further process will still more clearly illustrate the point. Suppose, when the species of bank which has been described was about to be instituted, it was to be urged that, in order to secure to it a due degree of confidence, the fund ought not only to be set apart and appropriated generally, but ought to be specifically vested in the officers who were to have the direction of it, and in their *successors* in office, to the end that it might acquire the character of *private property* incapable of being resumed without a violation of the sanctions by which the rights of property are protected, and occasioning more serious and general alarm—the apprehension of which might operate as a check upon the government. Such a proposition might be opposed by arguments against the expediency of it, or the solidity of the reason assigned for it, but it is not conceivable what could be urged against its constitutionality; and yet such a disposition of the thing would amount to the erection of a corporation; for the true definition of a corporation seems to be this: It is a *legal* person, or a person created by act of law, consisting of one or more natural persons authorized to hold property, or a franchise in succession, in a legal, as contradistinguished from natural, capacity.

Let the illustration proceed a step further. Suppose a bank of the nature which has been described, with or without incorporation, had been instituted, and that experience had evinced, as it probably would, that, being wholly under a public direction, it possessed not the confidence requisite to the credit of the bills. Suppose, also, that, by some of those adverse conjunctures which occasionally attend nations, there had been a very great drain of the specie of the country, so as not only to cause general distress for want of an adequate medium of circulation, but to produce, in consequence of that circumstance, considerable defalcations in the public revenues. Suppose, also, that there was no bank instituted in any State; in such a posture of things, would it not be most manifest, that the incorporation of a bank like that proposed by the bill would be a measure immediately relative to the *effectual collection* of the taxes, and completely within the province of the sovereign power of providing, by all laws necessary and proper, for that collection? If it be said, that such a state of things would render that necessary, and therefore constitutional, which is not so now, the answer to this, and a solid one it doubtless is, must still be that which has been already stated —circumstances may affect the expediency of the measure, but they can neither add to nor diminish its constitutionality.

A bank has a direct relation to the power of borrowing money, because it is a usual, and in sudden emergencies an essential, instrument in the obtaining of loans to government.

A nation is threatened with war; large sums are wanted on a sudden to make the necessary preparations. Taxes are laid for the purpose, but it requires time to obtain the benefit of them. Anticipation is indispensable. If there be a bank the supply can at once be had. If there be none, loans from individuals must be sought. The progress of these is often too slow for the exigency; in some situations they are not practicable at all. Frequently, when they are, it is of great consequence to be able to anticipate the product of them by advance from a bank.

The essentiality of such an institution as an instrument of loans, is exemplified at this very moment. An Indian expedition is to be prosecuted. The only fund out of which the money can arise, consistently with the public engagements, is a tax, which only begins to be collected in July next. The preparations, however, are instantly to be made. The money must, therefore, be borrowed—and of whom could it be borrowed if there were no public banks?

It happens that there are institutions of this kind, but if there were none, it would be indispensable to create one.

Let it then be supposed that the necessity existed (as but for a casualty would be the case), that proposals were made for obtaining a loan; that a number of individuals came forward and said, we are willing to accommodate the government with the money; with what we have in hand, and the credit we can raise upon it, we doubt not of being able

to furnish the sum required, but in order to do this it is indispensable that we should be incorporated as a bank. This is essential towards putting it in our power to do what is desired, and we are obliged on that account to make it the *consideration* or *condition* of the loan.

Can it be believed that a compliance with this proposition would be unconstitutional? Does not this alone evince the contrary? It is a necessary part of a power to borrow, to be able to stipulate the consideration or conditions of a loan. It is evident, as has been remarked elsewhere, that this is not confined to the mere stipulation of a *franchise*. If it may, and it is not perceived why it may not, then the grant of a corporate capacity may be stipulated as a consideration of the loan. There seems to be nothing unfit or foreign from the nature of the thing in giving individuality, or a corporate capacity, to a number of persons, who are willing to lend a sum of money to the government, the better to enable them to do it, and make them an ordinary instrument of loans in future emergencies of the state. But the more general view of the subject is still more satisfactory. The legislative power of borrowing money, and of making all laws necessary and proper for carrying into execution that power, seems obviously competent to the appointment of the *organ*, through which the abilities and wills of individuals may be most efficaciously exerted for the accommodation of the government by loans.

The Attorney-General opposes to this reasoning the following observation: "Borrowing money

presupposes the accumulation of a fund to be lent, and is second to the creation of an ability to lend." This is plausible in theory, but is not true in fact. In a great number of cases, a previous accumulation of a fund equal to the whole sum required does not exist. And nothing more can be actually presupposed, than that there exist resources, which, put into activity to the greatest advantage by the nature of the operation with the government, will be equal to the effect desired to be produced. All the provisions and operations of government must be presumed to contemplate as they *really* are.

The institution of a bank has also a natural relation to the regulation of trade between the States, in so far as it is conducive to the creation of a convenient medium of *exchange* between them, and to the keeping up a full circulation, by preventing the frequent displacement of the metals in reciprocal remittances. Money is the very hinge on which commerce turns. And this does not merely mean gold and silver; many other things have served the purpose, with different degrees of utility. Paper has been extensively employed.

It cannot, therefore, be admitted, with the Attorney-General, that the regulation of trade between the States, as it concerns the medium of circulation and exchange, ought to be considered as confined to coin. It is even supposable that the whole, or the greatest part, of the coin of the country might be carried out of it.

The Secretary of State objects to the relation here insisted upon, by the following mode of reasoning:

To erect a bank, says he, and to regulate commerce, are very different acts. He who creates a bank, creates a subject of commerce; so does he who makes a bushel of wheat, or digs a dollar out of the mines; yet neither of these persons regulates commerce thereby. To make a thing which may be bought and sold, is not to prescribe regulations for *buying* and *selling*.

This making the regulation of commerce to consist in prescribing rules for *buying* and *selling*—this, indeed, is a species of regulation of trade, but is one which falls more aptly within the province of the local jurisdictions than within that of the general government, whose care must be presumed to have been intended to be directed to those general political arrangements concerning trade on which its aggregate interests depend, rather than to the details of *buying* and *selling*. Accordingly, such only are the regulations to be found in the laws of the United States, whose objects are to give encouragement to the enterprise of our own merchants, and to advance our navigation and manufactures. And it is in reference to these general relations of commerce that an establishment which furnishes facilities to circulation, and a convenient medium of exchange and alienation, is to be regarded as a regulation of trade.

The Secretary of State further argues that if this was a regulation of commerce, it would be void, as *extending as much to the internal commerce of every State as to its external*. But what regulation of commerce does not extend to the internal commerce of

every State? What are all the duties upon imported articles, amounting to prohibitions, but so many bounties upon domestic manufactures, affecting the interests of different classes of citizens, in different ways? What are all the provisions in the Coasting Act which relate to the trade between district and district of the same State? In short, what regulation of trade between the States but must affect the internal trade of each State? What can operate upon the whole but must extend to every part?

The relation of a bank to the execution of the powers that concern the common defence has been anticipated. It has been noted that, at this very moment, the aid of such an institution is essential to the measures to be pursued for the protection of our frontiers.

It now remains to show that the incorporation of a bank is within the operation of the provision which authorizes Congress to make all needful rules and regulations concerning the property of the United States. But it is previously necessary to advert to a distinction which has been taken by the Attorney-General.

He admits that the word *property* may signify personal property, however acquired, and yet asserts that it cannot signify money arising from the sources of revenue pointed out in the Constitution, "because," says he, "the disposal and regulation of money is the final cause for raising it by taxes."

But it would be more accurate to say that the *object* to which money is intended to be applied is

the *final cause* for raising it, than that the disposal and regulation of it is *such*.

The support of government—the support of troops for the common defence—the payment of the public debt, are the true *final causes* for raising money. The disposition and regulation of it, when raised, are the steps by which it is applied to the *ends* for which it was raised, not the *ends* themselves. Hence, therefore, the money to be raised by taxes, as well as any other personal property, must be supposed to come within the meaning, as they certainly do within the letter, of authority to make all needful rules and regulations concerning the property of the United States.

A case will make this plainer. Suppose the public debt discharged, and the funds now pledged for it liberated. In some instances it would be found expedient to repeal the taxes; in others, the repeal might injure our own industry, our agriculture and manufactures. In these cases they would, of course, be retained. Here, then, would be moneys arising from the authorized sources of revenue, which would not fall within the rule by which the Attorney-General endeavors to except them from other personal property, and from the operation of the clause in question. The moneys being in the coffers of government, what is to hinder such a disposition to be made of them as is contemplated in the bill; or what, an incorporation of the parties concerned, under the clause which has been cited?

It is admitted, that with regard to the western territory they give a power to erect a corporation—

that is, to institute a government; and by what rule of construction can it be maintained, that the same words in a constitution of government will not have the same effect when applied to one species of property as to another, as far as the subject is capable of it?—or that a legislative power to make all needful rules and regulations, or to pass all laws necessary and proper, concerning the public property, which is admitted to authorize an incorporation in one case, will not authorize it in another?—will justify the institution of a government over the western territory, and will not justify the incorporation of a bank for the more useful management of the moneys of the United States? If it will do the last, as well as the first, then, under this provision alone, the bill is constitutional, because it contemplates that the United States shall be joint proprietors of the stock of the bank.

There is an observation of the Secretary of State to this effect, which may require notice in this place: —Congress, says he, are not to lay taxes *ad libitum*, *for any purpose they please*, but only to pay the debts or provide for the welfare of the Union. Certainly no inference can be drawn from this against the power of applying their money for the institution of a bank. It is true that they cannot without breach of trust lay taxes for any other purpose than the general welfare; but so neither can any other government. The welfare of the community is the only legitimate end for which money can be raised on the community. Congress can be considered as under only one restriction which does not apply to other

governments—they cannot rightfully apply the money they raise to any purpose merely or purely local. But, with this exception, they have as large a discretion in relation to the application of money as any Legislature whatever. The constitutional *test* of a right application must always be, whether it be for a purpose of *general* or *local* nature. If the former, there can be no want of constitutional power. The quality of the object, as how far it will really promote or not the welfare of the Union, must be matter of conscientious discretion, and the arguments for or against a measure in this light must be arguments concerning expediency or inexpediency, not constitutional right. Whatever relates to the general order of the finances, to the general interests of trade, etc., being general objects, are constitutional ones for the *application of money.*

A bank, then, whose bills are to circulate in all the revenues of the country, is *evidently* a *general* object, and, for that very reason, a constitutional one, as far as regards the appropriation of money to it. Whether it will really be a beneficial one or not, is worthy of careful examination, but is no more a constitutional point, in the particular referred to, than the question, whether the western lands shall be sold for twenty or thirty cents per acre.

A hope is entertained that it has, by this time, been made to appear, to the satisfaction of the President, that a bank has a natural relation to the power of collecting taxes—to that of regulating trade—to that of providing for the common defence—and that, as the bill under consideration contemplates

the government in the light of a joint proprietor of the stock of the bank, it brings the case within the provision of the clause of the Constitution which immediately respects the property of the United States.

Under a conviction that such a relation subsists, the Secretary of the Treasury, with all deference, conceives that it will result as a necessary consequence from the position, that all the specified powers of government are sovereign, as to the proper objects; that the incorporation of a bank is a constitutional measure; and that the objections taken to the bill, in this respect, are ill-founded.

But, from an earnest desire to give the utmost possible satisfaction to the mind of the President, on so delicate and important a subject, the Secretary of the Treasury will ask his indulgence, while he gives some additional illustrations of cases in which a power of erecting corporations may be exercised, under some of those heads of the specified powers of the government, which are alleged to include the right of incorporating a bank.

1. It does not appear susceptible of a doubt, that if Congress had thought proper to provide, in the collection laws, that the bonds to be given for the duties should be given to the collector of the district, A or B, as the case might require, to enure to him and his successors in office, in trust for the United States, that it would have been consistent with the Constitution to make such an arrangement; and yet this, it is conceived, would amount to an incorporation.

2. It is not an unusual expedient of taxation to farm particular branches of revenue—that is, to mortgage or sell the product of them for certain definite sums, leaving the collection to the parties to whom they are mortgaged or sold. There are even examples of this in the United States. Suppose that there was any particular branch of revenue which it was manifestly expedient to place on this footing, and there were a number of persons willing to engage with the government, upon condition that they should be incorporated, and the sums vested in them, as well for their greater safety, as for the more convenient recovery and management of the taxes. Is it supposable that there could be any constitutional obstacle to the measure? It is presumed that there could be none. It is certainly a mode of collection which it would be in the discretion of the government to adopt, though the circumstances must be very extraordinary that would induce the Secretary to think it expedient.

3. Suppose a new and unexplored branch of trade should present itself, with some foreign country. Suppose it was manifest, that to undertake it with advantage required a union of the capitals of a number of individuals, and that those individuals would not be disposed to embark without an incorporation, as well to obviate that consequence of a private partnership which makes every individual liable in his whole estate for the debts of the company, to their utmost extent, as for the more convenient management of the business—what reason can there be to doubt that the National Government would have

a constitutional right to institute and incorporate such a company? None. They possess a general authority to regulate trade with foreign countries. This is a means, which has been practised to that end, by all the principal commercial nations, who have trading companies to this day, which have subsisted for centuries. Why may not the United States, *constitutionally*, employ the *means*, usual in other countries, for attaining the *ends* intrusted to them?

A power to make all needful rules and regulations concerning territory, has been construed to mean a power to erect a government. A power to regulate trade, is a power to make all needful rules and regulations concerning trade. Why may it not, then, include that of erecting a trading company, as well as, in other cases, to erect a government?

It is remarkable that the State conventions, who had proposed amendments in relation to this point, have most, if not all, of them expressed themselves nearly thus: Congress shall not grant monopolies, nor *erect any company* with exclusive advantages of commerce! Thus, at the same time, expressing their sense, that the power to erect trading companies or corporations was inherent in Congress, and objecting to it no further than as to the grant of *exclusive* privileges.

The Secretary entertains all the doubts which prevail concerning the utility of such companies, but he cannot fashion to his own mind a reason, to induce a doubt, that there is a constitutional authority in the United States to establish them. If

such a reason were demanded, none could be given, unless it were this: That Congress cannot erect a corporation. Which would be no better than to say, they cannot do it, because they cannot do it—first presuming an inability, without reason, and then assigning that inability as the cause of itself. Illustrations of this kind might be multiplied without end. They shall, however, be pursued no further.

There is a sort of evidence on this point, arising from an aggregate view of the Constitution, which is of no inconsiderable weight: the very general power of laying and collecting taxes, and appropriating their proceeds—that of borrowing money indefinitely—that of coining money, and regulating foreign coins—that of making all needful rules and regulations respecting the property of the United States. These powers combined, as well as the reason and nature of the thing, speak strongly this language: that it is the manifest design and scope of the Constitution to vest in Congress all the powers requisite to the effectual administration of the finances of the United States. As far as concerns this object, there appears to be no parsimony of power.

To suppose, then, that the government is precluded from the employment of so usual and so important an instrument for the administration of its finances as that of a bank, is to suppose what does not coincide with the general tenor and complexion of the Constitution, and what is not agreeable to impressions that any new spectator would entertain concerning it.

Little less than a prohibitory clause can destroy

the strong presumptions which result from the general aspect of the government. Nothing but demonstration should exclude the idea that the power exists.

In all questions of this nature, the practice of mankind ought to have great weight against the theories of individuals.

The fact, for instance, that all the principal commercial nations have made use of trading corporations or companies, for the purpose of *external commerce*, is a satisfactory proof that the establishment of them is an incident to the regulation of the commerce.

This other fact, that banks are a usual engine in the administration of national finances, and an ordinary and most effectual instrument of loan, and one which, in this country, has been found essential, pleads strongly against the supposition that a government, clothed with most of the most important prerogatives of sovereignty in relation to its revenues, its debts, its credits, its defence, its trade, its intercourse with foreign nations, is forbidden to make use of that instrument as an appendage to its own authority.

It has been stated as an auxiliary test of constitutional authority, to try whether it abridges any pre-existing right of any State, or any individual. The proposed investigation will stand the most severe examination on this point. Each State may still erect as many banks as it pleases. Every individual may still carry on the banking business to any extent he pleases.

Another criterion may be this: whether the institution or thing has a more direct relation, as to its uses, to the objects of the reserved powers of the State governments than to those of the powers delegated by the United States. This rule, indeed, is less precise than the former; but it may still serve as some guide. Surely a bank has more reference to the objects intrusted to the National Government than to those left to the care of the State governments. The common defence is decisive in this comparison.

It is presumed that nothing of consequence in the observations of the Secretary of State and the Attorney-General has been left unnoticed.

There are, indeed, a variety of observations of the Secretary of State designed to show that the utilities ascribed to a bank, in relation to the collection of taxes, and to trade, could be obtained without it; to analyze which, would prolong the discussion beyond all bounds. It shall be forborne for two reasons. First, because the report concerning the bank may speak for itself in this respect; and secondly, because all those observations are grounded on the erroneous idea that the *quantum* of necessity or utility is the *test* of a constitutional exercise of power.

One or two remarks only shall be made. One is, that he has taken no notice of a very essential advantage to trade in general, which is mentioned in the report, as peculiar to the existence of a bank circulation, equal in the public estimation to gold and silver. It is this that renders it unnecessary to lock up the money of the country, to accumulate for

months successively, in order to the periodical payment of interest. The other is this: that his arguments to show that treasury orders and bills of exchange, from the course of trade, will prevent any considerable displacement of the metals, are founded on a particular view of the subject. A case will prove this. The sums collected in a State may be small in comparison with the debt due to it; the balance of its trade, direct and circuitous with the seat of government, may be even, or nearly so; here, then, without bank-bills, which in that State answer the purpose of coin, there must be a displacement of the coin, in proportion to the difference between the sum collected in the State, and that to be paid in it. With bank-bills no such displacement would take place, or as far as it did, it would be gradual and insensible. In many other ways, also, would there be at least a temporary and inconvenient displacement of the coin, even where the course of trade would eventually return it to its proper channels.

The difference of the two situations in point of convenience to the treasury, can only be appreciated by one who experiences the embarrassments of making provision for the payment of the interest on a stock continually changing place in thirteen different places.

One thing which has been omitted just occurs, although it is not very material to the main argument. The Secretary of State affirms that the bill only contemplates a repayment, not a loan, to the government. But here he is certainly mistaken. It is true the government invests in the stock of the

bank a sum equal to that which it receives on loan. But let it be remembered, that it does not, therefore, cease to be a proprietor of the stock, which would be the case if the money received back were in the nature of a payment. It remains a proprietor still, and will share in the profit or loss of the institution, according as the dividend is more or less than the interest it is to pay on the sum borrowed. Hence that sum is manifestly, and in the strictest sense, a loan.[1]

[1] Washington after careful consideration adopted the opinion of Hamilton and signed the bill. The national bank thus established conformed, except in a few points, with the plan proposed by Hamilton while the principles, the guiding lines, and the great central idea were all his. The policy thus begun has prevailed, with one or two intervals, throughout our subsequent history, and seems now to have become a permanent part of our financial system.

The charter of Hamilton's bank expired in 1811. Two years before that date the bank petitioned for a recharter, and Gallatin sent in a report strongly favoring the policy, although suggesting some modifications of the charter. It was too late for action and the matter went over to the next Congress (1810), when a bill was introduced in the House founded on Gallatin's report. At the same time a bill for a new bank was introduced in the Senate. It was charged that the old bank was a Federalist concern. The Democrats, although they had recognized its constitutionality by several acts, began to declaim against it; the two schemes clashed, and the whole matter went over to the next session. The old bank then applied again for a renewal, and was again strongly supported by Gallatin. It was resisted by the enemies of the Secretary and by those speculating in State banks. The House indefinitely postponed it—sixty-five to sixty-four. In the Senate the enacting clause was stricken out by the casting vote of Vice-President Clinton, who rested his objection simply on the ground that the new charter left the bank a private and exclusive corporation beyond the control of the government (1811).

The loss of the bank was severely felt during the stress of the war, which began in the next year, and the financial confusion which followed. To revive our broken credit and re-establish our currency, Dallas (1814) proposed a bank before the close of the war, with power to issue irredeemable paper money. After a sharp conflict bills were

brought in, in conformity to Dallas' report. Calhoun met this scheme with one of his own for a private bank not allowed to suspend specie payment nor compelled to lend to the government. After a close and exciting struggle a compromise plan, agreeing in the main with Calhoun's, was passed and sent to the President, who vetoed it as inadequate for the needs of the time.

The confusion and distress, however, continued, and the government was unable to pay in specie. Dallas, therefore, determined to try for a bank once more. He reported a plan substantially the same as Hamilton's, and this scheme, ardently supported by Calhoun as well as by Clay, who had changed his views since 1811, passed both Houses with slight modifications, was signed by Madison, and became law (1816).

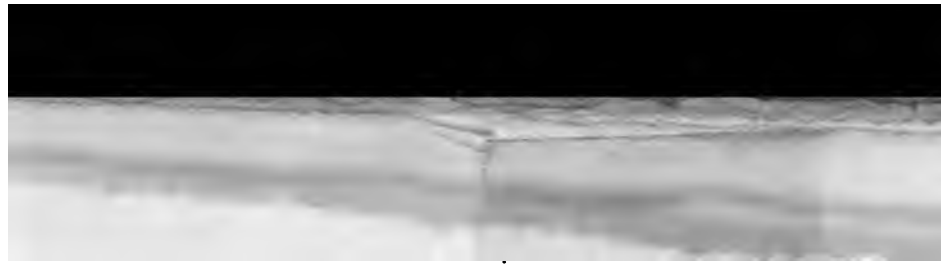
Three years later the question of the constitutionality of the bank came before the Supreme Court in the case of McCullough *vs.* Maryland. Marshall delivered the opinion of the court, which was unanimous. That opinion, one of the ablest of Marshall's decisions, strongly affirmed the constitutionality of the bank, and should be read in conjunction and compared with Hamilton's Cabinet opinion. Nothing shows Hamilton's power of argument and statement, and his ability as a constitutional lawyer better than this most severe test.

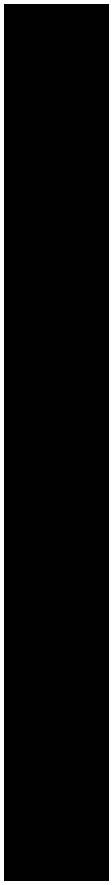
When the bank next came before the public it was in the fierce struggle with Andrew Jackson, which began in 1830 and ended with the overthrow of the bank in 1836. The bank had been held to be constitutional by the Congress of 1791, by Washington when he signed the bill, by Jefferson when he signed bills to establish its branches in the Territories, by the Congress of 1816, by Madison when he put his name to the charter of the second bank, and finally by the whole Supreme Court with Marshall at its head. But Jackson knew more than all these, and considered them of no authority; in fact, with his profound legal knowledge, he was able to point out the obvious errors of Marshall. He vetoed the bank bill, resting his veto on all sorts of grounds, and chief among them its unconstitutionality. Then came the "pet banks," receiving the deposits of government, then a brief fever of speculation, and finally the crash of 1837, which, on the whole, was the most remarkable feat and the most memorable achievement of the hero of New Orleans.

After the effects of the panic of 1837 had passed away, there were some futile efforts to revive the bank, and then the country was forced back upon local institutions. The danger, inconvenience, and utter inefficiency of the State banks are still freshly remembered. The country groaned and chafed under them for more than twenty years, until the Republican party came into power and established the present system of national banks. The new plan did away with the State banks by absorbing them and thus destroying the active and

interested opposition which confronted the old Bank of the United States and its predecessor. The present system seems to be firmly and permanently established. It embodies Hamilton's two great principles—national banking, supervized by the Central Government, and a national-bank currency. Hamilton's policy of national banking has become an integral part of our financial system, and has prevailed over all the attacks which have been made upon it. There is another side however to the question more important than its financial results. This is the constitutional argument employed by Hamilton in his cabinet opinion to which allusion has been made in a previous note. In this famous cabinet opinion Hamilton summoned to his aid the doctrine of the unimplied powers of the Constitution, and the establishment of the bank was the first triumph of that principle which has done more than anything else to build up and strengthen the power of the National Government.

END OF VOL. III.





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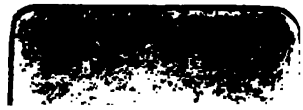
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